AGRICULTURAL ACT OF 1982

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 3074

"AGRICULTURAL ACT OF 1982"

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AGRICULTURAL ACT OF 1982

THURSDAY, DECEMBER 9, 1982

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:12 a.m., in room 5110, Dirksen Senate Office Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran, Helms, Boschwitz, Huddleston, Zorinsky, and Dixon.

Also present: Senators Dole, Pryor, Boren, and Heflin.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. I would like to welcome everybody to this hearing we are having this morning on a proposal for changes in our Nation's farm programs.

As you all know, the American farm economy is in very serious trouble. Net farm income is at its lowest point in 50 years, and without some bold new initiatives, the outlook is bleak.

A resolve to try to develop these initiatives and a consensus of support for them has brought us to this hearing today. Our farm economy is buried under a mound of surplus stocks, which has depressed prices to a level which makes it virtually impossible for anyone farming a major crop to make a profit. When farm income drops, farmers simply tighten their belts to stay in business. They don't replace their old equipment, and they don't farm with their normal intensive use of resources, such as fertilizer and chemicals. A reduced demand for farm input and services translates into reduced output for plants and factories, and this means higher unemployment.

Since agriculture is the Nation's largest industry, this combination of large crop surpluses and low prices has contributed significantly to the current national recession. If the depressed agricultural economy is allowed to persist, it will reduce the chances of an overall economic recovery.

There are two basic reasons for the rapid increase in surplus stocks, as I see it. First, the demand for U.S. farm products is depressed, and there are several reasons for this: The strength of the U.S. dollar, which makes it more expensive for foreign purchasers to pay for U.S. goods abroad; the worldwide recession, and finally our market share has been eroded by subsidies and other trade practices that have been more aggressive than U.S. trade practices.

Second, crop yields during the last 2 years particularly have been way above average, and this has added to the surpluses that are now held by the Government and has complicated the problem.

As a result, we have accumulated surplus stocks of corn, wheat, cotton, soybeans, and rice equivalent to the production on over 30 million acres. It is clear that action has to be taken to reduce these surpluses and strenghten farm prices and incomes.

Last Friday, Senator Huddleston and I introduced a bill which we believe will move us in that direction. We are here today to review that proposal and others that may be presented the committee, with an eye to putting into place a program which will put agriculture truly on the road to recovery.

Before we proceed with the witnesses who have been scheduled to appear, I will ask any of the other Senators if they have any opening statements or comments at this time.

Senator Huddleston?

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. Thank you, Mr. Chairman. First, I want to commend you for convening these hearings and for the active efforts you have taken to try to develop some answer to the difficult situation that American agriculture is now facing.

U.S. farmers and ranchers are facing the worst economic conditions in half a century, and most every economic and financial indicator points to severe hardships on the farm. Net farm income is likely to decline again in 1983 despite the expectation of a lower rate of interest, and a decline in the rate of increase in farm production costs.

Agriculture credit conditions in 1983 look bleak. Although lower interest rates can be expected, commercial lenders have indicated that almost 15 percent of the present borrowers will not qualify for financing at the lower rates. Continued erosion in the value of farmland will place the security of $200 billion in farm debts in greater jeopardy. The value of farm exports is forecast to decline in fiscal 1983, and the volume could decline as well.

Many observers expect that in 1983 the U.S.S.R. will take only the minimum tonnage from the United States required in the extension of the long-term sales agreement.

As implemented by the administration, current programs have not been effective in dealing with the severe downward slide in farm prices and incomes. Our Nation's farmers cannot tolerate any further deterioration in the farm economy. Already, many farmers are faced with foreclosure and bankruptcy.

Existing programs, if properly implemented, could do much to improve farm income and provide stimulus to the farm economy ravaged by low prices and weak export markets. The Secretary of Agriculture and the President should be using existing program authorities to aid in the recovery of the farm economy. It is clear that the administration has failed to address the concerns of our Nation's farmers. I know from my discussions with farmers in Kentucky that immediate action is needed to change the course of the administration's farm policy.

Mr. Chairman, I share my farmers' belief that more can and should be done. I was pleased to join you in introducing S. 3074, the Agricultural Act of 1982. That bill calls for strenghtening price support loan rates along with a payment-in-kind diversion program, efforts to help strenghten export markets, and diversion programs for the 1984 crops. I look forward to hearing from Secretary Block today. It is essential that we receive from him a detailed explanation of his plan of action with respect to the Department of Agriculture's payment-in-kind proposal.

Also, I hope he will be able to estimate for us the projected results of the payment-in-kind program with respect to commodity prices, with respect to farm income, Government outlays, foreign trade, and surplus reduction, as well as comment on our bill.

I also look forward to hearing the views of farm representatives on the condition of the agricultural economy and their thoughts on the administration's proposal, as well as the concepts put forth in S. 3074, and other steps that could be taken to get U.S. agriculture on the road to recovery:

Looking beyond this hearing, I intend to have my staff look at additional actions that may be taken to supplement steps outlined in S. 3074, and to explore the concept of making long-term commitments for use of our grain stocks to aid in overseas food assistance and development programs. Such long-term commitments could help create both new overseas markets and meet humanitarian food needs.

I was disappointed to learn of the action taken by the conference committee on the 1983 agriculture appropriations bill in regard to the economic emergency loan program. The conferees accepted a proposal to provide only authority to issue loan guarantees. I am fearful that such a guaranteed loan program will raise the hopes, but will not significantly assist the thousands of farmers in need of emergency credit assistance.

The administration has never fully implemented its guarantee loan programs and in several cases has refused to operate loan guarantee programs. Based on this sad track record for guaranteed loan programs, it may become necessary to consider further action to deal with the need to provide farmers with adequate operating credit.

Mr. Chairman, I believe that it is most important that we in Congress, the administration and farm groups, commit ourselves to a joint effort, beginning now, to develop a workable solution to the growing economic depression on our Nation's farms.

This hearing will be a good first step in that effort.

CURRENT SITUATION

U.S. farmers and ranchers are facing the worst economic conditions in half a century. Almost every economic and financial indicator points to severe hardship for farmers unless additional action is taken to strengthen the farm economy—either by the administration under existing law or through additional legislation.

Secretary Block summarized in a speech last month the troublesome condition of American agriculture—farm prices are too low, production costs are too high, the farm debt load is too heavy, and net farm income is too low.

Specifically, farmers face: A likely decline in net farm income again in 1983, despite the expectation of a lower rate of increase of farm production costs and a forecast of some slight rise in cash receipts to livestock producers. Very bleak agricultural credit conditions in 1983—although lower interest rates can be expected, commercial lenders have indicated that almost 15 percent of present borrowers will not qualify for financing in 1983, at the lower rates.

A continued erosion in the value of farmland that will place the security for $200 billion in farm debt in greater jeopardy. A possible decline in the value of farm exports in fiscal year 1983, to as low as $37.5 billion—this drop follows the first such decline, in fiscal year 1982, since 1969. The prospect that, while farm export volume may increase slightly in fiscal year 1983, it will still be less after 2 consecutive years of decrease, than the fiscal year 1980 volume of 163.5 million tons.

Expectations by many observers that the U.S.S.R. will take only the minimum tonnage from the United States required in the extension of the long-term sales agreement. While the Soviets are expected to import some 17 million tons of wheat in the 1982–83 marketing year, so far they have not purchased any wheat from the United States. At the same time, the Soviets have already booked about half of those projected imports—around 9 million tons—from other exporting countries.

Further deterioration in the farm economy will cause many farmers to face foreclosure and bankruptcy. This deterioration cannot be allowed to occur.

GOVERNMENT MUST ACT

Existing programs to expand demand and manage supplies of farm products can do much to improve farm income and provide stimulus to the farm economy ravaged by low prices and weak export markets. The Secretary of Agriculture and the President should not hesitate to use existing program authorities to aid in the recovery of the farm economy.

Further, it is increasingly apparent that Congress must provide further direction and additional authorities to supplement current efforts.

Mr. Chairman, S. 3074, the bill that you and I introduced last week, can do much to reverse the trend toward disaster in the farm economy. S. 3074 will provide improved incentives for financially strapped farmers to participate in programs to limit production and will establish programs to reduce burdensome existing stocks of grain.

The bill provides for increases in the price support loan rates for wheat, feed grains, upland cotton and rice, an acreage reduction program for 1984, market development and export expansion programs that use stocks owned by the Commodity Credit Corporation, expansion of the Public Law 480 program, and direct donations. The bill also includes specific authority for the Secretary of Agriculture to carry out a special payment-in-kind land conservation program for each of the 1983 through 1985 crops.

The provisions of S. 3047 will make the farm programs more responsive to the critical needs of U.S. farmers.

ADDITIONAL ACTIONS SHOULD BE CONSIDERED

There are further steps we can take to make use of our abundant agricultural production in both domestic and international markets.

We could commit our excess stocks of grain and foodstuffs to aid in domestic food assistance programs. These programs can be expanded to make more food available to those, such as the unemployed, who are struggling to survive.

In conjuction with such efforts, we could establish a program to convert existing supplies of basic commodities into higher value processed commodities of more use for the programs. In addition to putting our agricultural abundance to a worthwhile humanitarian use, the conversion process generates additional jobs and stimulates other economic activity.

An effective program that encourages the production of alcohol fules will assist in reducing the carryover of grain while lessening our dependence on imported oil. A recent report issued by the Congressional Research Service found that if the administration had used all the authorities available to it in recent years, 664 million bushels of corn could have been used to produce alcohol fuels.

There are a number of ways in which we could expand foreign markets for our agricultural products. Much could be done to help American farmers recapture a major part of the Soviet market by establishing export delivery guarantees for sales to the Soviet Union grain sold under the long-term sales agreement. Farmers are concerned that the Soviet Union will not purchase American grain because delivery of sales above the minimum volume specified in the current extension of the long-term agreement are not guaranteed. Extending a guarantee of delivery to all grain contracts will do much to eliminate this uncertainty.

Also, it appears that circumstances are now conducive for a renegotiation of the long-term grain sales agreement with the Soviet Union. The current 1-year extension, which expires September 30, 1983, should be replaced with a multiyear agreement specifying higher minimum shipments. In such renegotiation, the administration should make every effort, within foreign policy limits, to recapture a substantial part of the Soviet market.

Also, the President should include in his upcoming fiscal year 1984 budget request a provision for funding the agricultural export credit revolving fund authorized in the 1981 farm bill, this credit program can do much to increase agricultural export sales by countering persistent high interest rates and the increased strength of the dollar.

I encourage the President to continue his effort to reduce duties and tariffs imposed by other nations and discourage other actions by foreign governments to restrict our exports. However, tobacco growers in my State would caution our Government to take care to ensure that selective trade actions as part of the effort not unduly jeopardize our opportunities to sell agricultural commodities abroad; both now and in the future.

We should consider increasing the minimum tonnage for the food security wheat reserve above the statutory limit established in the Food Security Wheat Reserve Act of 1980. The Secretary of Agriculture could use wheat owned by the Commodity Credit Corporation for this purpose without drawing on appropriated funds.

By significantly increasing this special reserve, we could enhance farm prices, as well as increase our capability to meet emergency needs in countries throughout the world.

Further, we should consider committing Government-owned stocks of other commodities, including processed products, to begin building a comprehensive food reserve similar to the wheat reserve.

However, the United States should not be holding all of the world's food reserves. We should be participating in an international effort to use the abundance from good crop years to alleviate the hardships of any severe shortfall of food production. Therefore, the President should explore with members of the European Community, Canada, Australia, and other major agricultural producing nations the feasibility of establishing a jointly maintained international food reserve to be used for emergency food relief needs.

The inadequacy of storage and distribution systems in many countries represents a constraint to agricultural export sales and food-for-peace program shipments. Improvement of these conditions would benefit not only needy countries where such conditions prevent the storage of commodities to protect against shortages caused by disasters or crop failures, but could assist our farmers in developing foreign markets. We should consider making U.S. know-how and construction equipment available to other countries, through loans, to enable them to make these improvements. Such improvements will enable these countries to efficiently handle increased quantities of U.S. agricultural shipments. Moreover, such improvements will enable these countries to import greater quantities of U.S. agricultural products in future years. And, by providing tools, equipment, industrial products, and related construction items, this assistance can generate additional jobs for American workers in nonagricultural industries.

CONCLUSION

As implemented by the administration, current programs have not been effective in dealing with the severe downward slide in farm prices and income. I will work, during the coming months, for the development of programs that give family farmers a fair opportunity to make the profit they need to stay in operation. A healthy agriculture is essential for spurring a recovery from the hard times our Nation is experiencing.

Senator **Cochran**. Thank you, Senator Huddleston. Senator Heflin?

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator **Heflin**. Mr. Chairman, our farmers today are perhaps in the worst condition that they have been in in many years. Additionally, there are going to be some more immediate problems confronting the farmer in the coming year, particularly in regard to credit. There could be massive foreclosures in the agricultural community unless we approach the problem with some leniency, and understanding, particularly in regard to payments of loans now outstanding.

There are two items that I think on a long-range basis have to be considered if the farmer is going to be able to meet the demands of production in the future and is going to be able to do so in a profitable manner.

As I see the future, there are perhaps two alternatives: Greater markets or supply management. In the market area, there are, of course, the issues of exports and domestic consumption. We have had a number of factors that have occurred in recent years which have affected, certainly, the export market, one being foreign policy, and somehow or other we have got to influence all administrations, that if they attempt to use farm products as a tool in foreign policy, they can expect that a substantial decrease in the export market will occur. We now have from Russia only 17 percent of their grain market coming from American sources, whereas a short time ago it was 70 percent.

On the other hand, we are now confronted by subsidies by a great number of governments, in particular the European governments in their efforts to promote their exports of farm sales. This is being done at the expense of American farm products.

On a domestic level, we still, to me, have opportunities to increase the markets. There are such things as use of farm products to develop synthetic fuels to eliminate our dependency on foreign sources of oil. We have not aggressively pursued this matter. We have, instead, had a change of policy. Perhaps the price of petroleum has come down, but in the long range we are going to continue with the problem of dependency on foreign petroleum imports and the need to develop economical domestic alternatives.

I think that whatever we do, we have to take into account the world markets, the effect of any curtailment, whether or not there will be domestic producers who would not come under a program who would increase or, on the other hand, foreign markets which would increase farm production. It is a delicate balance that calls for careful consideration by all parties concerned.

American agriculture is now at a crossroads. We may see the complete destruction of the family farm, moving into tremendous, big, large farms or, on the other hand, we can develop a policy that can help America to provide the food and fiber and at the same time allow our farmers, particularly the family farmer, to make a decent living.

I think careful and studious consideration must be given to the short-range, temporary problems, but we must not lose sight of the long-range problems that are confronting American agriculture today.

Senator COCHRAN. Thanks very much, Senator.

We had scheduled Secretary Block to be our first witness this morning, but he is at this time meeting with the President to discuss the administration's response to the initiatives which are pending before this subcommittee, and finalizing a statement with respect to administration intentions with the farm economy and farm problems. He will be here later this morning.

To begin the hearings, Senator Mattingly of Georgia is here. We appreciate very much your attending this hearing and presenting the committee with suggestions and legislation that you have already introduced in the Senate.

We welcome you.

STATEMENT OF HON. MACK MATTINGLY, A U.S. SENATOR FROM GEORGIA

Senator MATTINGLY. Thank you very much, Mr. Chairman.

As you know, I introduced Senate bill 3049, the Poultry and Egg Export Enhancement Act of 1982 this past week. It was aimed at demonstrating to our trading partners who would undercut our markets in world trade of the determination and the will of the U.S. Senate to end or roll back their unfair export subsidies, unfair subsidies which have resulted in virtual devastation of our domestic producers in these markets.

Mr. Chairman, they expect our country to help provide for global defense and stability, and yet many are totally unwilling to acknowledge the international agreements and rules which prohibit the subsidization of one country's export products to the disadvantage of another.

Mr. Chairman, I must call to your attention the recent situation where increased subsidies on poultry by our trading partners caused one of your own Mississippi companies to lose a contract worth approximately $160 million in sales to a Mideastern nation. This type of occurrence is more the rule than the exception. Over and again, I have discovered that subsidies on the part of the European Community and some South American countries have resulted in the inability of our American producers to compete and sell in markets where they have long had access.

Mr. Chairman, there is no other single area of world trade in which the use of subsidies by the European Community and some South American nations can deprive the United States of its fair share of world markets which is more evident than in the area of poultry and egg product trading.

This is why I have singled out this area for my first legislative effort, to help correct that problem. Poultry and egg producers have been pursuing all their legal remedies through the GATT protest, and the rules and regulations, by petitions, hearings, and meetings, and to no avail. On the other hand, our allies have used every tactic available to stall and render ineffective the legitimate claims of U.S. producers.

Mr. Chairman, we cannot wait 1 single day, 1 single minute longer, to send the strongest possible signal to the European Community and to the other countries of this world that the U.S. Senate is willing, ready, and able to forcibly take every necessary action to assure our producers fair and equal treatment in world markets. We must begin somewhere to get their attention.

Senate bill 3049 is the ideal starting place, because it is targeted. Let me reiterate. I have no objection whatsoever to a fair and competitive foreign marketplace. I do object to the unfair use of subsidies which have such negative impacts on our domestic producers and on our national balance of trade.

Our trading partners are accustomed to hearing us complain, cajole, and threaten action, and then equally accustomed to the fact that we are totally unwilling to take any action to back up our complaints and threats.

Mr. Chairman, I am convinced that we must leave no doubt whatsoever that this subcommittee, the Agriculture Committee of the U.S. Senate, and that this Congress as a whole will not hesitate to take any and all measures necessary to assure our American producers a fair shake in the world markets.

Mr. Chairman, the time for action, I feel, is now. I feel it is today. That is why I am appearing before you and my other colleagues on this matter at this busy time in our legislative schedule. I don't feel like we can really afford to wait any longer.

As I indicated, in the area of poultry and egg producer products, that is the most easily documented and proven of all areas of abuse. Let me briefly explain the aspects of my proposal for the subcommittee.

As you know, my proposal would not dislocate any present markets for current farm crops. It would simply utilize the CCC stores of surplus corn to afford American poultry and egg producers an opportunity to combat wrongful foreign export subsidies.

Present law prohibits the Secretary of Agriculture from selling surplus corn for less than the release price of 110 percent of the loan, plus interest and expenses. Senate bill 3049 would give him legal authority, and would allow him to make this feed available at a lesser price to a domestic producer for the express purpose of increasing export sales of poultry and egg products.

This will not result in any additional cost to the U.S. taxpayer. As I pointed out, this corn is already owned by the Government, there is no ready market for it, and if we don't use it, it will simply sit in storage spoiling. Under my proposal, the Secretary would make it available at prices which will allow American producers to offer their products at a competitive price on the world market.

At the same time, this program will allow the U.S. producers to provide enhanced job opportunities for unemployed workers. Most importantly, it is going to send a clear and unmistakable signal to our trading partners that the U.S. Senate is capable of dealing on their own terms in order to assure fairness and equity in the world markets.

Mr. Chairman, I thank you for giving me the opportunity to testify. I think it should be up to us to take up the baton for fair trade.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator. I appreciate very much your contribution to the hearing and your being here as the leadoff witness. You have an interesting proposal, and it surely does deserve the careful consideration of the committee and the Senate.

You point out how we are losing markets, particularly in the Middle East. I know our poultry industry in Mississippi has lost millions of dollars because of those markets being taken through more aggressive marketing practices by not only the European Community, but Brazil as well, and there may be other countries involved by now. But I know that our share of that market several years ago was about 95 percent and today it is less than 1 percent. That is a dramatic change, a turn of events, and it needs the attention of this Government.

Senator MATTINGLY. Just for our information, we all know that the European Community is currently subsidizing roughly $8 billion a year in export subsidies. In 1982, this year, the EC poultry industry alone has subsidized over $100 million of export sales.

Senator COCHRAN. Senator Huddleston?

Senator HUDDLESTON. Just one question.

Senator, having attended the recent trade conference in Europe, would you indicate what kind of attitude you detected among the representatives of the other countries, and European Community countries, on this particular trade problem. Was there any indication that they have a full appreciation of it, that they were willing to begin to consider modifying their own plans, or that they are taking into account the situation that the United States is faced with?

Senator MATTINGLY. They had a full understanding of it certainly, Senator Huddleston. In fact, I think they appreciate their $8 billion in subsidies, and I think when we came away from the conference, they had no motivation whatsoever to stop subsidizing their agricultural exports. This was one of the main failures of the GATT ministerial meeting, unfortunately.

As you know—I believe tomorrow—Secretary Schultz and Ambassador Brock will be meeting once again with the European Community in Brussels, trying to resolve some of these issues. I would hope that they would get somewhere, but I think, as I reported in my statement, that we will probably have to do something, and I think targeting such things as poultry and egg producers may motivate the EC to either eliminate or begin rolling back subsidies.

Senator HUDDLESTON. You think we need to get their attention, in other words.

Senator MATTINGLY. That is for certain. I think if we read the declaration that was given by the EC, in addition to the declaration that was given by the ministerial conference, they were very adamant—the EC was—in saying they would not roll back their subsidy programs.

Senator COCHRAN. Senator Heflin?

Senator HEFLIN. Senator Mattingly, somehow, I do not have a copy of your proposal. That is your bill in regard to poultry. Would you give us a thumbnail sketch of what you propose to do, first in regard to the poultry and egg situation?

Senator MATTINGLY. What this bill does is simply give the legal authority to the Department of Agriculture to be able to use the corn surpluses in CCC. That is what the bill does. The Agriculture Department then would only dispense that corn to those people for export, not for domestic products.

Senator **Heflin**. You would do it in export markets? The Secretary of Agriculture—what would he do relative to the feedgrain surpluses that would be beneficial to our domestic poultry industry?

Senator **Mattingly**. The surpluses in export, or the surplus corn?

Well, what he will do, he will take the surplus corn that is in the CCC and for those poultry and egg producers, he would release, under the rules and procedures that he would set up, the corn to those people to help them compensate for the unfair subsidies so they can compete on an even basis with them.

Senator **Heflin**. That is all. Thank you.

Senator **Cochran**. Thank you, Senator.

Our next witness is Congressman Paul Findley of Illinois. We want to welcome you most sincerely to the hearing, Paul. You have long been regarded as an expert in farm policy and farm legislation, a leader in the House for many years in that area, and others. We appreciate your taking the time to attend this hearing and to present the committee with your views. Welcome.

STATEMENT OF HON. PAUL FINDLEY, A REPRESENTATIVE IN CONGRESS FROM THE 20TH DISTRICT OF ILLINOIS

Congressman **Findley**. Thank you, Mr. Chairman.

This is my 22d year in the House of Representatives, most of which time has been on the Agriculture Committee, and looking around me, I see only Tom Abernathy, who was a legislator when I first came. That shows the passage of time.

Mr. Chairman, you will not be surprised to know that I am just as opinionated as when you were a Member of the House of Representatives, and free with my advice. It is not the first time I have had the great privilege of being before this committee, but I expect it may well be the last, because this concludes my service in the House, at least for the time being.

Senator **Cochran**. We are going to miss you, very much. I want you to know that, and I don't know how the House is going to be able to function as effectively in the farm legislative area without the contribution which you always have made to that process.

Congressman **Findley**. I am not sure I have any wisdom or any good advice, but I have been here and I have seen a lot of events. I do have the experience, and what troubles me about the recommendations—some of the recommendations, now pending before this committee is that they are reminiscent of the programs of the past that actually have gotten us into trouble, and I would urge caution before this committee moves forward on any of these recommendations.

I think we will all agree we don't want to go the way of Europe, even though Europe is causing a lot of problems to the American farm economy. We don't want to get into competition with them on how large a subsidy we can impose as retaliation for the justifiable complaints we have about the protectionist policies of that community.

I would hope that all of us could agree that a foremost objective of agricultural policy would be to maintain the basic efficiency of the producing plant we have in this country, which is the marvel of the world.

I would also hope that we could agree—that we could agree also—that the primary problem today in the farm prices is the existence of Government stockpiles of commodities. If these stockpiles did not exist, we would have every reason to expect profitable operations in almost every aspect of American agriculture, and therefore, I think the primary objective of Federal policy should be to dispose of existing stockpiles.

The last time the American farmer had profit was when the Government effectively was out of the commodity business, and I think that farmers will not enjoy profits until the Government is once more out of the commodity business. So, whatever we construct in the way of new legislation, we should keep in mind that the fundamental objective is eliminating Government stocks, and that is why I am so pleased that the administration is interested at long last in a very decisive, aggressive payment-in-kind program as a means of reducing, if not eliminating Government stockpiles.

I hope the Government will move swiftly and put the plan in motion in the next 2 weeks. It is my belief that it can be done without legislation. I think it would be a very serious mistake for the Government to wait until the next Congress has time to act. This legislation is needed, along the lines of the administration's proposal now before this committee. It must be done in this so-called lame-duck session. To wait until next March or April would be to lose 1 year of effectiveness in bringing about a reduction in stockpiles.

I note that the administration is asking section 2 of a bill that is now before the House Agriculture Committee, and I presume before this committee, for language which says that any land diversion payments-in-kind made by the Secretary shall not be sales for purposes of sections 110 and 407 of the Agriculture Act of 1981. Well, they are not sales for the purposes of sections 110 and 407, and they certainly should not be construed as payments for purposes of section 1101. I can claim some parentage of section 1101, which is a limitation on payments to individual farmers. It was never my thought that this limitation would apply to any payment-in-kind program.

From that, I come to the conclusion that the administration could act today with an aggressive and effective payment-in-kind program, and I hope it will. We are in a farm crisis, largely made in Washington, and action by Washington is needed to clear away these Government stocks that inhibit prosperity for American farmers.

My feeling also is that the country would rejoice if the administration would act decisively, eliminate the problem, get things going, and get these enormous stocks reduced. There might be some concern on the part of legislators that the administration is moving without legislative authority into a realm that really was not spelled out clearly in any legislation, but I am sure that many thoughtful legislators would nevertheless applaud decisive, constructive, aggressive action by the administration.

What is the payment-in-kind principle? Simply put, it utilizes existing Government holdings to compensate farmers for idling their own acres. A farmer gets paid in Government-owned grain for agreeing to idle his grain acres for the year, and it could apply to cotton as well, of course, or to the other commodities. No money changes hands. The farmer is paid not in dollar value of grain, but in grain equivalent to the yield he would normally get. He would be paid in bushels or in tons.

I have been recommending this type approach since I first came to Congress in 1961, and during one of the last meetings of the House Agriculture Committee before the election, I urged administration officials to move swiftly with a large-scale payment-in-kind program.

My own recommendation is that the Government contract to idle entire farming units, not just a percentage of each farm. A farmer who normally produces only wheat would shut down his entire wheat acreage for the year, putting it into uses that would maintain or build soil value and minimize erosion. In exchange, he would get title to a specified number of bushels of Government-owned or Government-controlled wheat. He would get control of the wheat at harvest time, and at that time he would dispose of the wheat in his normal manner. The same would apply to producers of corn, soybeans, rice, or whatever.

I urge the whole farm retirement for two main reasons. First of all, taking an entire operating unit out of production is the best way to reduce production. When only a percentage of the farm is taken out, the least productive acres always go first. All of us know that. I know in my area where corn and soybeans are prominent, when we have an acreage-diversion program for corn the hillsides, the creeks, go first. That is human nature.

Now, there is also another disadvantage of the percentage reduction in order to get a reduction in production, and that is that fertilizer is often heaped on the remaining acres, and this, too, reduces the effectiveness of the program.

Second, the whole farm retirement approach is far easier to administer. It involves fewer individual farmers and fewer administrative details. Now, the Government, of course, would limit carefully the number of farms and the number acres that would be idled in a particular township or county. Otherwise, the effect on supporting services, like fertilizer and equipment dealers, could be devastating.

I feel that the plan is a sound answer to the farm emergency that is now unfolding. It will reduce substantially existing surplus grain stocks that are now costing the taxpayers heavily to maintain. It would get rid of a troublesome inventory that the Government now owns at great expense. It would reduce substantially the new production of the grains and other commodities, and would accomplish these goals without the outlay of one additional budget dollar in a way puts burdensome grain stocks to work to bring about new adjustment in production.

It permits the market system to function. It preserves the efficiency of the operating units that are still operating. Farmers who idle their lands could even play the futures market if they wish with the contract grain or other commodities that they might get as a result of this contract.

It gets farmers out of a very deep yawning chasm, and gets results must faster than the costly programs now onstream. If the Government pushes this approach aggressively, it could end—I am convinced—it could end the surplus grains by this time next year. It would bolster farm prices, but do it in a way that is far better than price fixing through higher loan rates, or higher target prices, and it would relieve the taxpayers of billions of dollars to handle excess commodity production.

It is one of those rare Federal programs, also, that is self-terminating. Once the surplus stocks are gone, there is no basis for continuing a payment-in-kind program.

As you know, Mr. Chairman, I am always free in thrusting my ideas on others, and I welcome this occasion and opportunity today.

Senator **Cochran**. Thank you very much, Congressman Findley. I think your statement is certainly one that reflects a great deal of thought and careful consideration of the problems that we face in agriculture. I certainly hope that either your suggestion or some modification of it which does result in eliminating these surplus stocks and giving the farmers a chance to make a profit on the farm is implemented, and as you point out, at an early date.

I think, too, that if we wait until the next session of Congress begins in January before we develop a program, then it is going to be too late to have any effect on the 1983 crop year. People are now beginning to acquire fertilizer, make plans, buy chemicals, and decide what they are going to do in terms of crop selection. Thus, the time to act is now. If we wait too much longer, then it is going to be too late to get any relief at all and the problems will be exacerbated.

How would you go about, I wonder, selecting which farmers are going to idle which farms. That, to me, would present a serious problem in the administration of that program.

Congressman **Findley**. The most efficient approach from the standpoint of the Government and the taxpayer is on a bid basis. Give the opportunity to farmers to come in with a proposal under which they could idle their entire farming unit in exchange for *x* number of bushels of corn, or soybeans, or wheat, or cotton, or whatever, and then take the best bid, keeping in mind the importance of not imposing undue hardship on any particular township or county.

Senator **Cochran**. I wonder, too, about the problem that we might face if we take too many acres out of production. Would we encourage foreign producers and competitors to enlarge their production to take up what they may perceive to be a slack in our production, and claim markets that have traditionally been U.S. markets. Do we run the risk of losing markets by taking too many acres out of production?

Congressman **Findley**. I think the risk is pretty close to zero, but I do appreciate your concern, and it is a concern that all of us ought to keep in mind as other legislative programs come forward.

Price fixing of commodities in this country by legislative action has often in the past exported markets to other countries, and encouraged Brazil and Argentina, for example, to expand soybean, corn, and wheat production.

This program, because of its self-limiting feature, would come to an end once the surplus stocks are gone. It would have the effect of bolstering prices, but the bolster in prices would reflect free market conditions, not what Government thought was a fair and proper price level.

There is really no price fixing in this proposal at all. It is a plan to permit the market system to function to the advantage of the consumer and the farmer as well.

Senator **Cochran**. Senator Huddleston?

Senator **Huddleston**. I, too, am glad that Mr. Findley has appeared here this morning, and that I have had the opportunity to work with him for part of his long tenure here in the Congress. His interest and work in trying to develop a workable mechanism for the agriculture community of this country, is not only known to me, but to everyone who has had the pleasure of working with him.

Paul, just one question. The disposal of surplus crops is, I think, foremost now in everybody's mind as the most reasonable approach to the problem that we have.

The Secretary has made some suggestion that has been rattling around the world export markets now that we might dispose of large amounts of our butter and other dairy products on the world market. Do you have any view of that as maybe a part of this program?

Congressman **Findley**. It is a dangerous game, but there, too, I can understand the motivation. I am aware of the enormous level of subsidies in the European Community and in some other countries I am aware of the multitude and degree of protection that does keep our commodities from these markets, and we have to do something with the surplus stocks we have.

I don't see any way we could have a very effective payment-in-kind program for dairy cows. How could we put dairy cows out of milk production for just 1 year, for example?

So it is a commodity with particular problems. As you perhaps know, I have some ideas about what we ought to do about the dairy program, but this, I take it, is an emergency plan that the Secretary has in mind, and I suspect and I hope that it is more for a bargaining position in trying to get barriers to trade down rather than a serious program that he intends to carry forward.

All of us, I think, are firmly committed to the objective of reducing barriers to trade, not creating new ones, and as the world's leading trading nation in farm commodities, we have, I think, an especially heavy burden to resist the temptation to be protectionist.

By the way, I have to add that I understand that after November 2, there was some rejoicing in tobaccoland because of the outcome of my contest, but I hope you will assure your friends down there that never on any occasion was I trying to eliminate the tobacco program. What I was trying to do was eliminate any level of subsidy that the taxpayers might provide in that program.

Senator **Huddleston**. I understand your position. So far we are surviving, and the fact that the cast of characters may change, we know we face the same problems.

Senator **Cochran**. Senator Zorinsky?

Senator **Zorinsky**. I would like to thank Congressman Findley for a provocative and innovative view. I think it is necessary in these types of times when we have the financial problems in the agricultural sector that face us that we have people like yourself who come forward with new proposals and new ideas.

The question I would like to ask, Paul, is, you are talking about issuing warehouse receipts or grain receipts in lieu of a hard-currency subsidy. Would the farmer then convert that either to feed or resell the grain?

In other words, how would you get it out of the pipeline? As long as it sits there, psychologically it still creates a surplus in the market and keeps the prices depressed, unless you wait that 1-year cycle, then, to catch up with the lesser planting.

Congressman **Findley**. Well, first of all, the contract would be for a given number of bushels, and not a dollar value. Under the contract, he would not take title to it until normal harvest time. At that time, he would dispose of it in whatever way he wanted to. If he were a feeder, and Government stocks were nearby, he would probably actually take custody of the Government stocks.

He might sell it and purchase stocks in the private sector closer to home, but he would be getting title to bushels or tons, and be able to use the ownership of that grain for whatever purpose he might want.

He might decide to sell it on the futures market before he actually can take possession of the title itself.

Senator **Zorinsky**. I see. Thank you.

Senator **Cochran**. Senator Heflin?

Senator **Heflin**. What problems do you forsee in a payment-in-kind provision internally within the farm? It seems to me we have many, many scenarios. What, for example, would be the situation as regards the landlord-tenant relationship? Is there a problem dealing with this in connection with the PIK program? Is there a need, we will just say, in the landlord-tenant situation to have details in the legislation, or else can the Secretary of Agriculture deal with a problem such as that on an administative basis? That is one, just one, of perhaps many possible problems. Do you have any thoughts pertaining to that?

Congressman **Findley**. Well, first of all, I think that the payment-in-kind program needs to be a voluntary one. I would oppose any legislation which would force a farm to be retired, even a part of a farm to be retired. So it ought to be voluntary, and there could well be some landlord-tenant relationships which would make it totally out of the question for a particular operating unit to be under this program.

But I am convinced from my knowledge of my home county in the Midwest that there are enough farming units which are operated by the owner of the land, or operated under contract to permit the operator to take part in a 1-year program.

I would also suggest that this be just a 1-year program, or at least a 1-year contract. I would hope the authority for this could extend for several years as a backup, as a safety measure, but I would not like to see farms idled for more than one season as the result of a single contract.

I don't question but what this would cause some dislocations, some problems, especially for suppliers of services to farmers. No question about it.

But I think we have to decide what our objective in farm legislation is, and my objective is to get profits back in agriculture, and I see the existence of Government stocks as the primary obstacle to the return to profits, and therefore I think that we ought to expect the Nation, and some particular parts of the Nation, to be willing to take some adjustment, some sacrifice, in order to get to that larger goal of getting Government out of the commodity business so profits can return. It would depend upon the pace at which the administration would seek to eliminate surplus stocks. If they decided, for example, to reduce the stocks by 25 percent of the annual production of the commodity, that would be a rather severe, wrenching adjustment. I would like to see the pace at least that heavy, though. I think we need to master this problem very quickly, take whatever pain is involved, and get to the desired goal of a market system in which Government stocks no longer inhibit profit to the farmers.

Senator HEFLIN. I noticed you testified that you thought payment-in-kind ought to come at harvest season. Could the payment-in-kind then be put back into farm loans?

Congressman FINDLEY. I haven't thought about it, frankly. I suppose it could. The farmer, I think, should be entitled to make whatever use of that acquired grain that he would desire to make. I would not want to tie his hands, so I don't see that that would be an impediment.

Frankly, I am not enthusiastic about these grain bank programs. I don't like to see programs that tend to get the Government into the grain business.

I would like to see the programs changed, but I would not want to hamper the functioning of this program by tying the hands too tightly of those who cooperate.

Senator HEFLIN. Well, you say that you would eliminate the ability to put the PIK into loans. What effect does this have relative to the farmers' decisions pertaining to futures? He receives a payment-in-kind. We will say that he is not allowed to put it into loans.

Congressman FINDLEY. I would not deny him the right to put it into loans. I would like to leave that option, along with others, in his hands.

Senator HEFLIN. Well, then, under the proposed provisions, the use of CCC-owned commodities are available for export, as I read the language of the proposal by the Secretary of Agriculture, on such terms and conditions as he deems appropriate.

Are we then putting a situation of where the payment-in-kind sales are put into competition with the CCC-owned commodity that are not in there.

Congressman FINDLEY. In all candor, Senator, section 5 of the administration proposal entitled "Use of CCC-Owned Commodities to Increase Exports," I don't think has direct relationship to the payment-in-kind proposal. I think it is a proposal to enlarge the flexibility of the Secretary in seeking additional foreign markets.

In fact, it may well fit into the bill that Mr. Mattingly has just presented to your committee, under which some Government-owned stocks could be used as bonuses or incentives to stimulate expansion of foreign markets.

To my knowledge, it has no direct relationship to the payment-in-kind proposal.

Senator **Heflin**. Can it become a form of competition?

Congressman **Findley**. Sure, and I suspect that the Mattingly proposal would be found in violation of GATT. It would be substantially a two-price system——

Senator **Heflin**. I wasn't speaking about the Mattingly proposal. I was speaking about section 5 of the administration's proposal where they could take commodities into the CCC and sell them for export on such terms and conditions as they determine appropriate, whether that forms a competition to the payment-in-kind sales that would be made.

Congressman **Findley**. Those words are what Ev Dirksen used to call "rubber language." They are pretty loose, general, abstract terms, but what do terms and conditions amount to? Does that cover the price? Does that enable the administration to have a two-price system for export?

I don't know. I think it is broad enough, probably, to do that, but I doubt if the administration would be seeking authority for a two-price system, and I would hope that the terms and conditions would apply to the interest rates and repayment of the principal, rather than to price itself.

Senator **Cochran**. Paul, thank you very much for being here and helping the committee. I have found your testimony to be very interesting and illuminating.

I surely agree with you that there is room within current law to permit administrative action to help do something in a more aggressive way than is being done now with these surplus stocks, and in helping explore those options, I think you have been quite helpful.

It will be interesting to see the reaction of the Secretary of Agriculture when he appears before the subcommittee later this morning to those suggestions. We will specifically ask him about them.

Congressman **Findley**. May I add one brief comment?

Senator **Cochran**. Sure.

Congressman **Findley**. I understand the administration is somewhat enamored of going part way on payment-in-kind, instead of going for entire farms as the main purpose of the program, to go for 50 percent of the farming unit.

I hope they won't go that route for the reasons I have already stated. I want to also comment that the bill that you have very thoughtfully put together does have provisions for higher loan rates with the hope that this would raise market prices, in other words make loan rates an instrument for price fixing, to use language that I would choose.

But it also has language in it to reduce production up to 15-percent retirement of acreage. I fear that it has built within the same contradictions that often appear in farm legislation.

The higher loan rates tend to push prices up, and land diversion intended to pull production the other way. I don't think pushing and pulling at the same time, and I don't think that a 15-percent diversion has much chance of altering production.

If you want to get an adjustment in production, you have to go a lot farther than 15 percent.

Senator **COCHRAN**. Thank you very much, Paul.

Senator **HEFLIN**. Let me ask you one other question.

You say you think you ought to take whole farms, and it ought to be voluntary. I have observed that farmers in areas, and the third thing is not to have a disastrous effect on the supplier, the fertilizer salesman, the retail people that supply the elements of production in a crop.

If you take all of an area out, whole farms, you want to do it where it is voluntary, you want to do it where it does not have a disastrous effect on the production suppliers of the crop.

Do you not run into the potential, that is to localized areas, where the farmers tend to follow two or three leaders, and then they all want to do the same thing, and therefore you may have in a localized area, say in some section of Illinois, where they all want to do it.

You run, then, into a situation of where there would have to be some limit on the number that was accepted. What type of criteria do you use as to selection to prevent a whole area from going into a payment-in-kind diversion program?

Congressman **FINDLEY**. I would think the ASCS committees would receive instructions from the national office that a particular county would be permitted to receive whole-farm land retirement only up to a certain number of acres, or a certain yield in bushels or tonnage. That would be the way to limit it.

I would like to leave it——

Senator **HEFLIN**. But how do you select? Suppose you end up in your area that 80 percent of the farmers want to go into the PIK program.

Congressman **FINDLEY**. Take the best bids. I think it is best to handle it on a bid basis.

Senator **HEFLIN**. A bid basis?

Congressman **FINDLEY**. Invite bids from the operators of individual farms in which they would set forth the terms, in grain, or in cotton, or whatever, in exchange for which they would retire their entire producing unit that 1 year.

I would like to leave as much flexibility in the hands of the Secretary to administer this as possible, but I am sure he would be very careful not to take out an entire county, for example. That would be most unfortunate.

I am mindful of the problems of small business firms in country areas, farm implement dealers, fertilizer, seed, and all that. But I have found from talking with them that they are willing to take an additional period of strain if they have the assurance that something better is at the end of the year.

As it is now, they see nothing but mounting troubles.

This payment-in-kind program carries a real promise of getting the farmers out of the difficulties they are in.

Senator **HEFLIN**. Thank you.

Senator **COCHRAN**. Thank you again, Paul, for being with us this morning.

Next, we are having a panel consisting of Gary Myers, president of the National Council of Farmer Cooperatives; Robert Frederick, legislative director, the National Grange; Bruce Hawley, assistant director of the National Farmers Union; Paul Saci, legislative assistant, National Farmers Union; and David Senter, national director, American Agriculture Movement.

We welcome each of you here, and thank you for being here to present your thoughts or suggestions to this subcommittee. I think what we will do is, we have copies of statements which you have prepared for our consideration, for which we thank you very much. We will make those statements a part of the record and we will have questions for you.

We will ask you to make whatever summary comments or abbreviated oral statement that you would like at this point.

Let's start with Gary Myers.

STATEMENT OF GARY MYERS, PRESIDENT, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. **Myers**. Thank you, Mr. Chairman.[1]

Many of the general farm organizations, as well as commodity groups today will address the costs and benefits of the proposed PIK program, and in order to avoid duplication, I would like to focus on the export situation.

In fiscal year 1982, the gross value of U.S. agriculture exports declined from $43.5 to $39 billion. This represented the first year-to-year decline in U.S. agriculture exports since 1969. USDA is currently projecting a further decline in fiscal year 1983 to $37 billion.

Mr. Chairman, there are a number of reasons for this projected decline in both volume and value of U.S. agriculture exports. No. 1 is the worldwide recession. No. 2 is the strength of the U.S. dollar. No. 3 is the creditworthiness of our U.S. customers, and No. 4 is the increased use of export subsidies by the European Community.

The dramatic growth in the European Community's agriculture exports has been closely correlated with an increase in their funding for export subsidies.

In fact, in 1976, the European Community exported $12 billion of agricultural products, while spending $2 billion on export refunds. In 1982, the European Community exported $40 billion, while spending between $7 to $8 billion on export refunds.

Given this dramatic change in the export picture, the national council urges the Congress to adopt a strong export proposal which will reestablish the United States in the world agriculture marketplace.

The council firmly believes that the administration will continue to be unsuccessful in negotiations with the European Community on the issue of export subsidies until it implements an export program with some real teeth in it.

The National Council's Blue Ribbon Export Committee on Trade met this week to formulate just such a program. Our committee's program, which is entitled "The Market Enhancement Program," would operate as follows:

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[1] See p. 102 for the prepared statement of Mr. Myers.

USDA would establish an export target by commodity for each importing country. Once the importing country reached its export target, the CCC would begin to grant bonus certificates to the importers for each $1 of product they purchased above the export target.

Bonus certificates would be used to purchase any commodity which is: (1) currently in NCCC inventory; (2) covered by Federal marketing orders and has a reserve pool; and (3) determined by the Secretary of Agriculture to be losing its share of market due to use of export subsidies.

The value of the bonus certificates would be set by the Secretary for each commodity and in each market where the program applies.

The Secretary would have the authority to offer dairy products as a part of any sale through the market-enhancement program. The Secretary would be given the authority to administer a similar program under titles I and III of the Public Law 480 program.

In closing, the national council strongly urges the support of title III of Senators Cochran and Huddleston's bill which gives the Secretary basic authority to implement the market-enhancement program.

We would encourage the committee to include language giving the Secretary authority to include non-CCC-owned commodities under this program, including those under marketing orders and some other value-added commodities.

In addition, Mr. Chairman, I would like to submit as a matter of record a copy of a resolution recently passed by our Blue Ribbon Export Committee on Trade which concerns dairy product exports.[1] The resolution strongly urges the Secretary to use his existing authority to export CCC-owned dairy products.

Thank you.

Senator **Cochran**. Thank you. Thank you very much, Gary.

Robert Frederick, legislative director of the National Grange.

STATEMENT OF ROBERT FREDERICK, LEGISLATIVE DIRECTOR, NATIONAL GRANGE

Mr. **Frederick**. Thank you, Mr. Chairman. I would appreciate it if my whole statement would be part of the record, and I will start, perhaps, in the middle of page 2.[2]

I welcome the bill that you and Senator Huddleston introduced that addresses loan rates. However, when we look at the surplus stocks we have on hand and the effect that an increase in loan rates may have on prices, would come at a time when increased loan rates could increase the cost of getting land out of production via the PIK program, or whether it is a cash-payment program, because it increases the production value of that acre and it just costs more to get that land out of production.

Therefore, this may not be the best time to increase loan rates, as much as my organization has been a supporter of increased loan rates. We also endorse the concept of using CCC stocks to enhance foreign markets. As it was suggested by the Senator this morning, these commodities should be used for long-range market development in foreign countries, to enhance commercial sales at a later date.

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[1] See p. 104 for a reprint of the resolution referred to by Mr. Myers.

[2] See p. 105 for the prepared statement of Mr. Frederick.

I guess our caution is that we hate to see CCC in any way get involved in a disposal program for CCC stocks. Perhaps this can be best handled where possible through the private enterprise side of the grain trade or through the hands of farmers.

I guess we are a little bit reluctant to see Government get involved in disposition of commodities.

Then, directly to the payment-in-kind program; we have only had one opportunity of sitting down with the Secretary and his staff to discuss the PIK program; therefore, we really don't know what we are talking about in total. From the small information we have gathered, we would not like to make recommendations, but just some observations, Mr. Chairman.

The payment-in-kind program should not replace or be an alternative to present set-aside and paid diversion programs as announced for 1983. It should be an addition to the present program at the option of the farmer, for diverting land in addition to the announced programs.

Two, farmers should not be asked to accept lower loan levels or reduction in or a freeze of target prices in exchange for an unknown quantity.

Three, the payment ratio of the payment-in-kind should be between 40 percent and 65 percent of proven yield on land diverted, with higher payments for land already planted in winter wheat.

Four, to protect the business community in rural areas, no more than 60 percent, and that is not a magic number, of the tillable acres in any one farm should be diverted under the RAP and the PIK program.

In this regard, I was interested in the discussion you had with Congressman Findley on placing whole farms in the PIK program. This was done, I think, in the late 1950's and it was on a bid basis, and that was the only program they had for diversion, and none of the bids were accepted, so there was no diversion. That was a pilot program, as I understand it, in some counties in some States.

We would suggest that the PIK program, give consideration to placing the whole farm or the whole base in the program, but it should be done in connection with the present program of RAP, which is based on a certain percentage of the crop base, and leave it at the farmer's option if he wishes to place in the whole farm.

There are some problems with using the bid to remove land from production. One problem is the fact that the bid may be too high. The second is that it pits farmer against farmer in a community, and one farmer is accepted and another is not, and it does not develop the best community relations. Farmers charge favoritism, and so forth, so I think it has to be handled with discretion.

To minimize the effect on market prices, the payments in kind should not be made until after the 1983 harvest and then spread over a 5-month period, or a like time to provide for orderly marketing so it won't all end up on the market at once

I think the farmer, in making his planning, should be given the option, as Congressman Findley said, of placing the payment in kind back under loan, but certainly not back into the reserve. This would give him an idea of what his payment is going to amount to in dollars, and help him in his financial planning with his bank and his financial institutions.

Sixth, the payments-in-kind should not be included under the $50,000 payment limitation provision.

Seventh, the total amount of land diverted under the program should be determined by the Secretary, taking into account the amount of CCC stocks, the number of acres diverted under the RAP and the estimated disappearance of the crop during the ensuing year, so we have some idea that we are not going to short a crop too much in any one year.

Eighth, the farm should have the option of taking back grain stored under the regular loan program, the farmer-owned grain reserve or payment in kind from CCC-owned grain.

Ninth, adequate measures must be taken to protect the interest of tenants and sharecroppers.

That pretty much, Mr. Chairman, summarizes the observations of the National Grange regarding PIK. I would be glad to respond to any questions.

Senator COCHRAN. Thank you very much, Mr. Frederick.

Bruce Hawley, assistant director, Washington office, American Farm Bureau Federation. Bruce?

STATEMENT OF BRUCE HAWLEY, ASSISTANT DIRECTOR, WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION

Mr. HAWLEY. Thank you, Senator. I request my statement also be submitted and included in the record.[1]

The current farm income situation is a complex, and often baffling problem. It is a condition that demands sound economic answers and not political maneuvers.

Historically, Secretaries of Agriculture have attempted to use farm programs in an effort to find solutions to the net farm income depressions. Usually, such efforts fail. Loan rates have been used as marketing tools, target prices as income-protection mechanisms and, more recently, the farmer-owned grain reserve has attempted to store our way to prosperity.

None of these programs has succeeded in stabilizing agricultural markets or prices. Rather, these basic tools have served to isolate market signals from the agricultural production sector and have resulted in continued overproduction of basic commodities.

We would like to offer several specific recommendations based on the policy of our voting delegates and the recent action of the AFBF board of directors. These recommendations are as follows:

No. 1, we would recommend implementation of what we call the "freeze and fix" program, a program intended to freeze all targets and loans at the current level to avoid the very problem that Mr. Findley spoke to of creating conflicting signals in the marketplace. The increase in loans obviously does benefit from the standpoint of cash flow situations, but also creates an incentive at a time when overproduction is part of our problem.

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[1] See p. 108 for the prepared statement of Mr. Hawley.

Second, we would recommend a prohibition of entry of any commodity into the farmer-owned grain reserve prior to that commodity being put into the nonrecourse loan program for the full 9 months' duration.

There have been efforts in recent times to move commodities directly into farmer-held reserves to cause a more permanent disappearance from the marketplace on a short-term basis, and that is a major cause of the buildup in farmer-held reserve stocks that we have at this time.

Third, establish a producer-option release level for the farmer-owned grain reserve. These price triggers could be lower than the current release levels, and serve as prices at which the producer could move grain without penalty, or have the option of leaving the grain in the reserve and continue to collect storage payments.

Any mechanism that will expedite the movement of grain out of the farmer-held reserve in an orderly fashion will eliminate the cloud over the market that we currently are faced with.

Fourth, we would recommend repeal of the current authority of the Secretary of Agriculture to implement a 50-percent assessment under the dairy program, and call for substitution of a program which we have been advocating before Congress since the beginning of the debate on the 1981 farm bill, tying the support levels for dairy to the CCC levels of purchases.

Under that program, when the CCC levels are high, as they are now, the dairy price support would be diminished. The support price would be allowed to incrementally rise as CCC purchases fell to a reasonable level.

Fifth, we would encourage implementation to the fullest extent possible of all programs available to assist in and to promote the export of U.S. agricultural commodities and value-added products. In that context, Senator, we would specifically be supportive of the provisions included in the Cochran-Huddleston bill offering a payment-in-kind concept with relation to agricultural exports.

We would suggest that it might be beneficial to broaden that concept out of just the Public law 480 area, and make it applicable to a broader range of agricultural exports. Public Law 480 is reasonably narrow in its scope and reasonably limited in the commodities it is able to move because of its funding limitations.

At this time, we would also like to focus our comments on the talks about the payment-in-kind program that is being discussed. Let me preface my comments by saying that we have not seen details of the final program, so we are still dealing with concepts, and we are not able to be as specific as we would like to be.

We have participated in a number of meetings with administration officials and have encouraged further analysis and consideration of the idea.

We would raise some questions that we would hope would be considered as the program is fleshed out. Some have already been mentioned.

What percentage of the land would be utilized for acreage reduction purposes? Would there be a minimum or maximum percentage on a per farm basis. Would farmers be allowed to reduce their entire crop acreage for production in exchange for compensation?

How will payment-in-kind pay a producer who farms in different regions of the country from that in which the commodity is stored?

If warehouse receipts are to be utilized as an exchange medium, does one then assume that they constitute legal title to the commodity, and we raise that somewhat in the context of the warehouse bankruptcy issue which has been pending before the Congress for some time.

Under the bankrupcty laws, warehouse receipts have not been viewed as a whole and clear legal title to the commodity.

Any payment-in-kind program that is implemented must in our opinion have an adequate economic incentive for the producer to participate. The final determination on a farmer's participation in this program will be made when the farmer sits down with pencil in hand and figures out whether it makes economic sense on his farm, and the program must be designed with adequate incentives to cause that kind of farmer participation.

In conclusion, I guess the one other point that we would emphasize is that we encourage Congress to continue to focus on the disease as well as the symptoms of the problems, and by the disease we are referring to the impact on agriculture, the impact on the value of the dollar, the impact on our standing in the world community as a trading partner, associated with our continued large Federal deficits, with high inflation and interest rates, and resultant problems that we have had for a number of years.

We continue to believe that moving toward a balanced budget and reduced Federal spending, reduced Federal intrusion into agriculture and other segments of the economy has got to be an important long-term factor in the recovery of the agricultural sector of our country and the rest of the country as well.

Senator **Cochran**. Thank you very much.

Next, Paul Sacia, legislative assistant, the National Farmers Union.

STATEMENT OF PAUL R. SACIA, ASSISTANT DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. **Sacia**. Thank you, Mr. Chairman.

Time is running out for many of America's farmers. Therefore, we are grateful that you are providing this forum so that concerned interests can discuss in a creative and nonpartisan way exactly which farm policies should be pursued in the immediate future.

We believe your bill is an excellent vehicle for focused discussion. In the area of supply management, we believe that acreage reduction for 1984 of a minimum of 15 percent, with one-half consisting of paid diversion, is fundamentally sound, but we would encourage an expansion of that to 20 percent and 10 percent respectively.

In regard to authorizing the Secretary of Agriculture to implement a payment-in-kind program, we must suspend judgment on the merits of this proposal until we can get a detailed explanation of how it will work. There are a number of questions that must be answered before we are willing to embrace as untested a program as this at such a dangerous stage in American agricultural history.

Chiefly, and I will just allude to the most important questions that we do have:

First of all, will the transfer of stocks from an "insulated from market" reserve system to the market, which will have a price depressing effect, be compensated for by increased support loan levels?

From the reports we receive, the administration has the opposite in mind. Therefore, the cashflow that is desperately needed is not achieved and the Farmers Union would oppose the program from the start. Conversely the increase in loan levels embodied in S. 3074 move in the right direction, although very modestly.

Second, will the payment-in-kind occur at the time of harvest? Unloading the stocks before the harvest season would unnecessarily depress market prices and, again, would be unacceptable to us.

Third, will measures be taken to assure that compliers receive a higher price for their grain than noncompliers? If the market responds positively from a lowering of stocks, noncompliers—those who choose to continue to produce—obviously are benefiting from a free ride. The complier must be rewarded.

Fourth, will acreage diversion limits be set at a level which is administratively feasible as well as fair to all farmers and geographic regions?

Allowing 100 percent diversion will unneedfully complicate determinations upon who may and who may not participate in the program. A lower diversion limit would allow all who wished to participate and would eliminate administrative nightmares such as a participant selection lottery.

Fifth, will payment limitation be applied? In some regions unlimited payments from the Federal Government for not planting a crop will result in speculative purchases of marginal cropland, further adding to a serious topsoil erosion problem. We suggest that an operation not benefit by more than the equivalent of $50,000 in stocks.

As we now read the law, we do not believe that $50,000 limit can be circumvented.

Finally, recognizing that the 1982 acreage reduction program failed to win substantial participation because incentives were lacking, it is important that the incentives in a PIK arrangement be attractive enough to result in widespread national participation sufficient to assure a meaningful reduction in total crop output.

That ties to the next section, which is on floor loan rates for 1983 to 1985. We believe the levels set, as mentioned earlier, are on the low side in response to application to a payment-in-kind program.

We would also encourage an appreciable rise in target levels for the mentioned commodities. We would like to emphasize our conviction that the loan rates must be set high enough not only to attract participants, but to ensure adequate cash flow in an already depressed market.

Finally, we believe that the key phrase for the demand expansion portion of this legislation can be found in section 1209A, which allows for CCC stocks to be made available in order to "enable United States exporters to be competitive in price with the exporters of other nations." We can only interpret this as being a license to meet subsidy with subsidy.

While the National Farmers Union is deeply disturbed over the growing trend toward protectionism abroad, we do not feel that it is fitting for the United States to join in adopting beggar-thy-neighbor policies. Trade wars may escalate in the same manner as military conflicts.

The agricultural sector would certainly be targeted here, and we are in no position right now to take further negative repercussions in any sense.

By adopting this policy approach, we are tossing down the gauntlet and inviting retaliation. This reaction may come in an indirect fashion, by prompting competitors to subsidize their commodities even more heavily, thus bidding world market prices ever lower and lower. We doubt whether this or any administration stands prepared to approve the billions of dollars necessary to conduct such an auction.

The response could also have an even more direct for if the EEC or Japan—our two largest customers for farm products—were to initiate drastic restrictions on the importation of American agricultural commodities. If they then sought alternative suppliers, we might find that we had become a residual source of food, just as we now are with the Soviet Union.

Other provisions of this title would use surplus stocks to help combat world hunger through Public Law 480 and other donation programs. We applaud this effort as long as it is not simply another means of sending a threatening message abroad.

We also hope that report language will instruct the appropriate Government agencies to continue to carry out Public Law 480 and donations in a manner that will respond to hunger and malnutrition without hampering any existing development programs. The availability of substantial quantities of foodstuffs on concessional terms may have the unintended effect of disrupting the developing agricultural sectors of recipient countries.

Thank you very kindly.

Senator **Cochran**. Thank you very much for your testimony.

David Senter, national director, American Agriculture Movement.

STATEMENT OF DAVID SENTER, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. **Senter**. Thank you, Mr. Chairman.[1]

We appreciate the opportunity to appear before this committee today. We want to thank the chairman for seeing the need to pursue this matter now, instead of waiting until the regular session next year, because of the urgent need and the crisis to get this in place and catch as much of the 1983 crop as we can, and start bringing supply management into place.

We read with relief your proposal that it had modest increases in the loan rate. We will urge substantial increases in that, but we had been told by Department people and the administration that they would urge doing away with target prices and lower loan rates, and we are very opposed to taking that approach at a time when farmers and farm prices are very bad off.

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[1] See p. 114 for the prepared statement of Mr. Senter.

There are several questions with "in-kind payments" that cannot be ignored. The amount of grain dumped onto the already depressed markets: The farmers are having severe cash-flow problems, and the only way to create cash flow is by selling the in-kind product. Where will the commodity be located? What will the storage cost be? Can the producer leave the product in place for a period of time, or will he have to take immediate delivery on it? Is this a move to stop paid diversion or target prices? All these questions must be answered to fully understand the proposal. We are awaiting details as the program is worked out.

USDA can do most anything with implementing a program that is adopted. It can be successful and productive for farmers, or it can be destructive if implemented in the wrong way, and I think this committee and Congress have to be very careful in drafting changes to insure that the intent of Congress is carried out, and that there is as little discretion as possible in the drafting and the final legislation that comes from Congress.

One thing for certain is that we have to have supply management. If supply management policy had been in place since the Russian grain embargo, we would not be facing the terrible problems we have today. The American Agriculture Movement supports mandatory supply management programs.

I am going to make some recommendations for changes and adjustments in the proposed legislation.

We would support a 25-percent minimum set-aside for all commodities for the 1984 crop.

The paid diversion and predeficiency payments should continue as in the existing program, with the only in-kind payment on any additional set-aside over and above the minimum.

Increase the loan rate to target price levels on all commodities. By doing this, you would lessen the direct payments that are made under the target prices, you would take pressure off the budget, you would move a lot of these costs into recoverable positions through the loan program, and it would floor the markets at a much more realistic position than it is now.

Soybeans must be added to the provisions of this bill, because we have serious problems in the soybean sector as well as, across the board, in all commodities, and it must be added.

One thing that has been ignored on loan rates more so than target prices in recent legislation is ratios. I would like to touch on those just for a minute. If you use the $2.75 a bushel loan rate on corn and use the industry accepted ratios for commodities, the loan rate should be $6.87 for soybeans, 68 cents for cotton and $4.12 on wheat, and $5.50 a bushel on rice, and that would be the ratios that are widely accepted to keep balance among commodities and not get them out of balance so you would have terriffic shifts between commodities and regions.

We do not feel that U.S. grain should be given away to foreign customers. It is bad enough to sell grain below the cost of production, but to give it away what we produce would be an insult to America's producers. The only exception would be that if direct foreign aid moneys be redirected to purchase agricultural commodities and be shipped to these receiving countries instead of direct moneys. We would wholeheartedly support that approach.

Next, I would like to throw out an idea that I have not heard mentioned to this point, an idea that we would like this committee to look at and develop some more discussion on, and that would be as an additional offering made available from the Department for the "no plant" provision of the "in-kind" payment to be made available to borrowers that are unable to get additional financing for the 1983 crop.

Several things would happen if these farmers were able to have the "no plant" for the 1983 crop. They would not have to borrow any additional money. They would not be paying any new interest. This would prevent much equipment from being forced onto the auction block and further depressing equipment prices.

It would keep land off the auction block to maintain our land values to keep our financing ability strong. It would be a big help to the Farmers Home Administration, struggling to maintain its borrowers. It should also be available to PCA's, Federal land bank, and private lenders, because the additional land idled would draw down on stocks further and would lead to higher prices, and therefore for the 1984 crop many of these family farmers will be able to refinance their operations because the in-kind payment would meet land and equipment payments for 1983, and they could maintain their farm in operation.

So we would appreciate it if you would take a look at that version of it so we could develop some further discussion on it.

Thank you.

Senator **Cochran**. Thank you very much, Mr. Senter. I can't help but observe the divergence of viewpoints that is reflected in the statements we have just had. To some, the loan rates that are recommended in the legislation that Senator Huddleston and I have introduced are too high. For others, they are thought to be too low. The bonus in-kind payments to purchasers who purchase at last year's levels are applauded by some and opposed by some.

This is the kind of exercise that I think is very important for us to go through to be sure that we have an opportunity to consider very carefully the observations that are reflected in statements as divergent as those which we have heard.

It was interesting to me, too, to hear suggested that we broaden the commodities that would be included in this bonus payment plan beyond the five major crops which are identified in the bill, I think Mr. Myers made that suggestion, and Mr. Hawley as well in your statements, that commodities covered by marketing orders be included in the bonus plan.

How would we identify, I wonder, and I will ask each of you this question, those commodities that should be included? Should we identify by commodity, by name, in the legislation, or simply provide authority to the Secretary to select those that seem to be in surplus at that time, and would there be any way to define the level of surplus which would qualify a commodity covered by a marketing order to be one that would be subject to a bonus plan?

Mr. **Myers**. Mr. Chairman, in our proposal we have suggested two alternatives in addition to the CCC-owned products.

Coming from Illinois, where on our farm we grow only corn and soybeans, we do often forget about the other crops grown around the country.

One of the proposals we have put into our program is where under a Federal marketing order a reserve pool has been established making those excess products available for the market enhancement program. Another option is to give the Secretary the authority to include those commodities under the program which have lost a large portion of their markets due to the EC's use of export subsidies.

Poultry has been mentioned often, where, in the Middle Eastern market we have gone from a market share of 25 to 30 percent down to 1 percent. The president of our blue ribbon trade committee, William Gaston of Gold Kist, has stated many times that we need to take a hard look at implementing programs to offset this unfair competition.

Mr. HAWLEY. We would not suggest going into the reserve pool on commodities that are covered by marketing agreements. Our intent in having it broadened was only to broaden it to the extent that it included dairy, and we bring dairy in because there is an obvious and direct linkage between dairy and the wheat and feedgrains markets.

Obviously, other livestock industries are also related. But the bulk of the reserve pool commodity that is currently under reserve conditions is a temporary pool that is a rotating stock within a specific commodity area, and is not related directly on an exchange basis with any of the other major commodities. That is a very specific kind of problem, and it is outside of the parameters of the concept that we are discussing here.

Senator COCHRAN. In your statement, Mr. Frederick's talk about what we agree is the loan rate dilemma, that is, the loan rates, while we admit are not high enough to give farmers the cash they really need to operate at a profit, they may be too high for the commodities to clear the market, leading to the accumulation of more surpluses which aggravate the problem and further depresses prices.

Our proposal in the bill we have introduced seeks to strike a balance in this dilemma, increasing cash opportunities for farmers, which Mr. Senter suggested is desperately needed at this point, and then coupling that with the bonus plan to move those commodities by reducing or averaging down the price that foreign purchasers would pay once they qualify for the bonus certificate.

What do you think about this approach, Mr. Frederick, to resolving the loan rate dilemma?

Mr. FREDERICK. Well, I don't know, Mr. Chairman, that we are ever going to solve it. I guess I have to pinch myself to see if I am sitting here asking that loan rates not be increased.

But it seems in a time that we are trying to buy out, and that is what we are doing, whether it is cash or whether it is payments in kind, we are trying to buy out production. It seems like we are working at cross purposes if we increase loan rates to make that buyout more costly.

Your bill suggests a modest increase, and that certainly does not disturb us, and we certainly would not want to see them decreased, but we are suggesting that this is the wrong time to work at cross purposes if we want to reduce stocks. I don't know how the export bonus relates to loan rates.

It seems that we are working at cross purposes by trying to buy out land and at the same time enhance the value of that productive capacity of the land by increasing the loan rate. Whether it is increased cash payments, or whether it is increased payments in kind, it is going to take more to buy out land that grows crops that has the loan rate increased considerably.

But this is a modest increase, and certainly needed. The prepaid deficiency payments and the prepaid diversion payments are an attempt to help address the cash-flow problem. I don't know if we are ever going to solve the loan-rate dilemma. First, don't reduce them and, second, let's be careful about how high we raise them.

Senator **Cochran**. Senator Heflin?

Senator **Heflin**. This is quite a distinguished panel here.

I have known farm problems for many years. In attempting to analyze the present dilemma in agriculture, we have to look at several factors, such as, depressed commodity prices. What is the cause of depressed commodity prices in the United States? Not enough markets and overproduction, I suppose.

In trying to cure this problem, it seems that the approach by the Department of Agriculture, by the Secretary, is going to reduce surpluses of various farm products.

Now, you reduce surpluses by getting rid of them, or you control production in the years to come.

We have to look at present policies and programs in light of where we are today. If we are going to say that the markets are not going to be available in the next 2 or 3 years and if we continue with unchecked production, then it is a matter of trying to develop a program of less production and getting rid of the surpluses.

Now, that means to divert, to take out of production, acres so as to reduce the surpluses that we have. If you take it out over a long period of time, maybe not too long, your production is low, and therefore your surpluses begin to be sold.

Now, the method by which we accomplish this is, I suppose, to which we are directed today, and basically I see in the administration's payment-in-kind as possibly opposed to a cash payment. Cash payments have fiscal problems to date, and public relations problems must be considered in connection with such payments.

But in analyzing it, what is going to be the effect on the contemporary problem that is facing the farmer relative to his credit situation? I don't claim to know any of the answers, but I suppose I am getting down to a situation that must be dealt with. What are the ill effects of the payment-in-kind program as opposed to a cash payment program for diversion?

Now, a cash payment plan for diversion would be a slower process. You would cut production, and the surpluses would be disposed of, supposedly, in accordance with the market price.

A payment-in-kind program, what are its advantages and what are its ills relative to our present situation? Is there a danger that through a payment-in-kind program, you flood the market. Can the farmer stand it?

There are a number of different problems relative to this matter. You have the surpluses that you are getting rid of, and at the same time this slack may be picked up by other domestic producers, or foreign producers? I am just wondering if there is another problem dealing with the payment-in-kind program, and that is that the payment that goes to the farmer would be a variable payment. It has no certainty.

Relative to this matter of variable prices, it can be affected by other producers, it can be affected by a flooding of the market with surplus products. There is no floor price.

Let me ask you whether another possibility, and I am not advocating it, is whether a mixture of cash payment and payment in kind, whether there are problems relative to this approach, particularly the credit problem of the farmer today, and your statement that he can pay off his loan. That may or may not be true.

Really, I suppose I am trying to evaluate surpluses and overproduction. How is the best way to approach it for the benefit of the public and the benefit of the farmer?

I think this is a sort of an issue that we have to come down to, namely, as to whether or not cash payments or payments in kind or a mixture, are advisable in an evaluation of ills and advantages on both sides.

Well, I will ask this question: Is it a serious danger that if you have a worldwide good crop year next year that the payment-in-kind program will, in effect, depress market prices and faced with the credit problems that the farmers have today, the PIK program may be disasterous for a fairly large percentage of farmers over the next couple of years.

Mr. HAWLEY. I think you have rather succinctly put your finger on a number of critical issues here. What you say has much merit.

If the payment-in-kind program is properly operated, we envision it causing more production to be foregone, than will commodities out of storage be released. That is, for a thousand bushels of production that is not undertaken, there may be only 500 or 600 bushels of commodities in storage released to the market.

So the total market impact of the payment-in-kind program should cause a diminution of the quantity of product on the market rather than an increase.

We do not anticipate adverse market movement in that context. The advantage of the system, if it can be made to work properly, is that it will cause both a reduction in total planting for the season, and a reduction in the amount of commodity in storage.

One way to simplify the program a bit, may be to restrict eligibility for participation in the program to those farmers who currently have grain under the farmer-held reserve program. This would get to some of the commodity transfer concerns that have been expressed by ourselves and by other panel members here.

If a farmer on his farm already has a commodity in the program, USDA would simply transfer title of that grain back to the farmer in exchange for an agreement not to produce some percentage of the farm. So they may be able to work with the grain that is already on his place, and not require warehouse grain or grain in another part of the country to be involved.

Mr. **Frederick**. I think I would just add, Senator, that that is why perhaps the payment-in-kind program should be announced so that it could come back under loan, because that would place a value on it and the value would not vary quite as much. If the farmer knew that commodity he was going to receive in payment-in-kind was eligible for a regular loan, he would know the value placed on it and know what amount of dollars he has to work with.

Senator **Heflin**. If the price of the commodity goes below the loan price——

Mr. **Frederick**. He would put it back under loan in that case.

Mr. **Hawley**. If the market price goes below the loan, he would go back under loan, right.

Senator **Heflin**. He would be putting in the loan, and you would not be getting rid of your surplus.

Mr. **Hawley**. Senator, in order for that situation to occur, we have to have another good year worldwide, and therefore a bad year domestically, if you will. If the production levels are of such magnitude on a worldwide basis that the price once again falls below our loan level, we have a serious problem virtually without regard to the kind of program in place, whether it is a PIK program, or a limited-production program, or any other program,

Mr. **Senter**. Senator, one thing that I would like to comment on. We feel like that looking at the free stocks that are available to keep the pipeline full and for sale now, with the PIK program coming into effect, it may delay an increase in the market, because with free stocks between now and harvest, the price has got to increase and start bringing some grain out of reserve because of the amount that has gone under loan in reserve that is tied up to keep the pipeline full and to meet the commitment for demand.

And this is why we felt like that the cash flow problems of the farmer are so important early on, to have a blend and maintain the paid diversion and deficiency payments and other things so that he can have his cash flow during this period it takes for the drawdown on stocks where you start getting a recovery and an increase in commodity process across the board.

Senator **Heflin**. What is going to be the effect from the viewpoint of credit? Now, you thought it would be an advantage to you for credit in your testimony. There are certain things that farmers are going to have to do regardless that are going to be costwise to him.

Mr. **Senter**. Yes.

Senator **Heflin**. Even if he takes his land out of service. Do you think there is a need for a tie-in, for some type of a moratorium on an individual basis?

Mr. **Senter**. Yes, sir, I would.

Senator **Heflin**. How are you going to figure his ability to repay? If it is a moratorium based upon an individual evaluation, that is?

Mr. **Senter**. The suggestion to look at was referencing the people that are going to be trying to borrow production money for the 1983 crop, and there are many, many that are going to be unable to qualify for any additional production money for the 1983 crop.

Well, then, the lenders are in a position, the private lenders will be bumping them out to FmHA, and they are not in a position to pick up any borrowers.

And Farmers Home has a lot of people that they are going to have to force to liquidate, foreclose on during the 1983 crop year, and we felt like that if they had access, these borrowers that could not get production money, to the no-plant side of it, well, then, they in fact could put their farm on a moratorium for a year, and the in-kind payment would be cash flow significant to meet their needs for that year, and that with recovering commodity prices, then they could very well refinance their operation for the following year, and we see no other way that this group of borrowers and family farmers can survive.

Senator HEFLIN. This is to Mr. Senter. Do you feel that the Secretary of Agriculture should give first priority to Farmers Home Administration borrowers as regards participation in the payment-in-kind program? If so, why?

Mr. SENTER. No, I would not say to have priorty access or anything. We were just indicating that, as an additional offer, that these people should be considered into the entire base, the no-plant, if that program was put in place, that they should be considered to be participants in that program as well, but not any kind of only access farm or priority, just that they should be considered in the program as well.

Senator HEFLIN. I believe that is all. Thank you.

Senator COCHRAN. Thank you very much, Senator.

Thank you all for being here and helping us with your testimony. We appreciate it very much. Thank you.

Next, we will hear from witnesses who will make up a panel that includes Wayne Nelson, president of the National Association of Wheat Growers; Veryl Bailey, vice president, legislative affairs, National Corn Growers Association; Ralph Weems, first vice president, American Soybean Association; and B. F. Smith, Delta Council, Stoneville, Miss.

We welcome each of you to the subcommittee hearing. We appreciate your being here, and look forward to having the benefit of your thoughts and observations about the alternatives that we are considering here to get farming back on the profit side of the ledger.

I think we will start, if we may, with Wayne Nelson. Let me say that we do have statements, and we will include those in their entirety in the record, and ask you to make whatever summary comments you choose at this point.

STATEMENT OF WAYNE NELSON, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS

Mr. NELSON. Thank you, Mr. Chairman and members of the subcommittee.

It is certainly a pleasure for the National Association of Wheat Growers to present its views.

I am a wheat farmer from Winner, S.D., and I certainly am looking forward to the day when we have profit back in wheat farming, too, very much so.

Mr. Chairman, bloated wheat supplies will threaten price recovery for at least two seasons if current programs continue unchanged.

World demand for wheat has fallen sharply behind production, and global consumption is expected to remain sluggish during 1983 and beyond. Last year, real economic growth worldwide reached only 3 percent, compared to average growth rates of 4 to 5 percent in the 1970's when U.S. exports grew rapidly.

Contributing to the poor performance of U.S. exports has been the 20-percent increase in the value of the dollar over the past 2 years. This exchange-rate differential has resulted in a 65-percent increase in the price of U.S. wheat for foreign buyers during the 12 months ending November 1. As an ironic consequence, the price of wheat to the U.S. farmer has dropped by about 10 percent from a year ago.

We will not see any improvement in the U.S. wheat situation until our level of excess stocks is reduced. Stocks have grown by 65 percent in the last 3 years, and it is evident that they will exceed the record level of 1961 when the current marketing season ends next May 31. At that time, nearly 45 percent of all world wheat stocks will be concentrated in the United States. These conditions call for strong steps to increase export sales on the demand side of the equation, and to reduce excess stocks on the supply side.

S. 3074, which has been introduced by Senators Cochran and Huddleston, contains a number of important changes in domestic farm programs, and it offers several innovative mechanisms for increasing U.S. farm exports in both commercial and concessional markets.

The bill would, among other things, require a minimum 1984 acreage cutback program for wheat of 15 percent, and it would direct that one-half of the acreage reduction be implemented through a paid diversion program with a payment rate of no less than $3 per bushel. The measure would also increase the minimum loan rate for the 1983-85 crops to $3.80 per bushel.

In expanding demand, the bill would authorize the Commodity Credit Corporation to use its inventories as "bonus stocks" for the purpose of expanding sales and meeting subsidy competition in commercial markets. Similarly, it would authorize the use of CCC stocks to expand Public Law 480, titles I and III sales, but it would provide the strict assurance that CCC commodities could only be used in addition to exports financed under regular agricultural appropriations.

We were pleased to have the opportunity last month to meet with Secretary Block, his advisers and other interested farm leaders regarding the proposed payment in kind, or PIK, program. PIK is an innovative idea, and farmers have shown considerable interest in how it might work. A version of this program is also included in S. 3074.

As we understand it, the PIK program is designed to reduce the supply of Government-financed commodities held by farmers by using this grain as currency to buy out additional land diversion. We also understand that an absolute halt on any future increase in target price levels is an integral feature of the Agriculture Department's new plan.

Frankly, we feel that there is simply not enough known about the PIK program to judge it fairly. Moreover, it would be a mistake to modify or enlarge the Secretary of Agriculture's authorities before first knowing the detailed design of the PIK program and the results it will produce for farmers.

If the program is to impact farmers favorably, there should be no concern over the level of future target prices. Alternatively, if the plan will not improve prices, then I can tell you that farmers will have a critical need for the safety net protection provided by the target price in 1984-85.

We have previously urged the Agriculture Department to offer farmers an option to participate in an additional 5 percent paid diversion which is already in place. In addition, we have urged the USDA to seek $500 million in supplemental funding for the Public Law 480 program, as a means of assisting developing nations which are being battered by the recession and reducing excess grain inventories in the United States.

We have further asked President Reagan to lift the sanction against the negotiation of a long-term grain agreement with the Soviet Union. The Soviets have completed six supply agreements with competing exporting nations since our 1980 sales embargo, and there are indications that talks are underway to conclude a seventh agreement with the Australians. The U.S.S.R. is the world's largest grain market, and our farm economy will continue to suffer as long as our trade and foreign policy discourage Soviet purchases.

I might add that in the last year, we haven't sold one bushel of wheat to the U.S.S.R. That points out the importance of this new agreement.

Again, I want to express our appreciation for the opportunity to present the wheat growers' views to you today. I will be pleased to respond to your questions at the proper time.

Senator **Cochran**. Thank you very much, Mr. Nelson.

We will now hear from Veryl Bailey, vice president, legislative affairs, National Corn Growers Association.

STATEMENT OF VERYL BAILEY, VICE PRESIDENT, LEGISLATIVE AFFAIRS, NATIONAL CORN GROWERS ASSOCIATION

Mr. **Bailey**. Thank you, Mr. Chairman, and Senators.

I would just like to say that I am a full-time farmer, and my income in the next few years is going to be dramatically impacted by what comes out in the next few weeks right here. I am very concerned, as are the corn farmers that I represent.

I would like to now, if I could, take one step backward and try to analyze why we are where we are. It is my opinion that there are too many reasons for the problems of commodities here in the United States, and one is reduced buying power here at home and abroad.

The second is political intervention in the free and open market system.

So this gives us a basic framework of where we are, and brings us down to what can we do today short term and what can we do long term to improve the situation.

Short term, with what is on the books in a farm program for the coarse grain industry. The 10 and 10 program, when you work through the figures for the coming crop season and it is not enough to impact supply and demand to move enough off free stocks to do very much for farm net income.

On this basis, we do indeed support a supplemental farm program on a one-shot deal, a 1-year program here.

With this, taking a look at PIK, I concur with Wayne here. There is really not enough known that is available to us in advance to make a whole lot of meaningful comments, but based on the information that we do have, No. 1, we do approve of the basic philosophy over and above the basic set-aside and paid diversion.

Now, you ask, why am I specific in that area. Well, part of the basic farm program of set-asides and paid diversions works into its fabric the reserve. The reserve as a concept was started out, and, I hope, continued, it is a protection for all of society. It is a food buffer in the event of worldwide shortages, and so forth, and I think—rightly so—all of society should help, and it should not be just on agriculture's shoulders to bear the cost of the reserve.

So the PIK, if it were backed in, if you will, and in future years used to pick up all of the costs, if you will, of the farm program, very likely it could throw all the costs of the farm program back on the shoulders of agriculture, and even the portion of the food supply buffer that the reserve provides.

The other points that I might mention concerning the information of all the farms, half the farms, portions of farms, and so on, I think we have got another problem here. The PIK was tried in the early 1960's, and it was pretty much labeled from our perspective as a failure. So the PIK, when it comes out and hits the country, it has psychological problems it has to overcome to begin with. It has a historical problem.

The other is the philosophical concept of literally sitting out a year that the farmer has, and I am addressing the 100-percent concept. For the man reaching retirement or the tenant, that has possibilities, but for the young farmer, psychologically, and even economically, it has some problems if you pull it down to the bottom line.

So I think we should support half of the farm, 35 percent, I don't care. Some flexibility in there.

The payment rate: It is believed that the payment rate will be a portion of the yield base in the paid-in-kind program. When you work down through the figures, you have got to remember that the loan system, the 10 and 10 set-aside, is actually bidding against the PIK, and the only way that you can keep the paid in kind, the set-aside paid diversion from bidding against the PIK and forcing you to raise the yield base percentage that is required would be to allow it back into loan, because that removes the risk of the price of the grain turned back.

The big disadvantage is that agriculture will be labeled double dippers from here on, because the word would go out, "I got a loan payment on my crop in 1982. I got it back for not producing in 1983, and then I put it back in the reserve and had the Government pay for it again." I think that is the hazard of allowing it back into loan that must be guarded against and must be weighed very carefully.

The payment time, and most of the discussion has been around harvest time. That appears quite logical, because that is when the grain would be available again. There are a couple of things that are a hazard here, though, and one is that when the participation rate came out, the trade would actually know that size of the harvest, and that known amount would go into the market a lot earlier than a growing crop because there is a hazard as to what the size of that crop is.

Maybe we should consider a split in the release of that, for two reasons. One, to allow that quantity of grain to move into the market more gradually, and the second is that we can use the early release as an additional enticement to the participant.

I am not fully convinced that the framework that I have seen so far really brings enough enticement to bring participation in, so maybe a sign up time of partial release ought to be considered.

The loan rate. What should we do? Well, a lot of people have addressed the issue here as concerning what does the loan rate do as far as flooring world price, what does it do with enticing and bidding up the resources in agriculture, and so forth.

Basically, we in the corn industry, the Corn Growers Association, feel that now is not the time to make very much change in loan rates. It is a time when we probably need to go steady as we are, and not try and cause too many ripples in the economic sector because of changes in the loan rate.

I have got some brief comments on compliance, technical things that probably are more related to the Secretary of Agriculture. Let me move on, then, and mention—oh, one other comment. That is, as a farmer, I need this program as soon as possible. Corn doesn't go in the spring. If I were Wayne, I would be jumping up and down—a lot of that wheat is already in, and those guys have to decide what to do with it—but the corn industry needs it also.

Long range, we need to be producing for a market, not for the Government. We must maintain our efficiency in agriculture. The minute we step in and start diverting land, we are no different than an automobile factory that has a plant idle. Our overall efficiency is diminished. The strength of the U.S. economy is diminished. That, quickly, is the domestic side.

I would just like to make one comment. The PIK as the information comes to me is really supply side only, and with all the participation figures and so forth that I have seen may not do it in 1 year in the corn industry. So we must work on the demand side.

Your bill, I think, pertains to increased access in export markets. Let me just say one thing. I think we have got to be innovative here, but let's not violate all the rules of free world trade.

On the long haul, if we abandon the concept and the belief and the theory of relative economics, if we go toward protectionism, the entire world will lose. We are at a point right now of diminished world buying power, and everything, where we could go toward a world depression if we go toward protectionism, nationalism, and everything.

Let's be innovative in finding our access into these world markets, and let's not violate all the rules, and let's get our world trading partners to the bargaining table.

If it takes a game plan—I wonder if a couple of billion dollars could effectively tie up the $8 or $12 billion the Europeans are putting into that. This is a battle of the treasuries here, not a battle of agriculture. I think that with a game plan from this end, we would effectively tie up the $12 billion and force the European taxpayers to squeal, and then we will get them to the bargaining table.

I think I will stop, and yield to questions at the appropriate time.

Senator COCHRAN. Thank you very much.

Now, we hear from Ralph Weems, first vice president, American Soybean Association.

STATEMENT OF RALPH WEEMS, JR., FIRST VICE PRESIDENT, AMERICAN SOYBEAN ASSOCIATION

Mr. WEEMS. Thank you, Mr. Chairman.

I appreciate this opportunity to express ASA's views on the several farm program alternatives presently being considered for the current year and for the future.

Certainly, there is no questioning the fact that American agriculture is in the midst of an economic crisis exceeded in this century only by the period during the Great Depression. Farm-gate prices for all commodities, including soybeans, are disastrously low and farm debts are at a record high. With few exceptions there is little profit to be made in the present climate producing of any of the basic commodities.

American soybean producers need help to recover from the current farm price depression, and I will detail our requests a little later in my statement.

But before considering the possible solutions to current low prices, we of the American Soybean Association urge the Congress to take a close look at the supply-demand relationships for the four major field crops as well as the results that have been achieved under the programs available for each crop. We believe that analysis clearly demonstrates the correctness of the market-oriented policies advocated by the soybean producers.

USDA is currently projecting the August 31, 1983 soybean carryover at 450 million bushels, only about 22 percent of total U.S. soybean utilization during the last marketing year. On the other hand, the projected end of marketing year carryouts of corn, wheat, and cotton, expressed as a percentage of total utilization in their last marketing year, are 50.2 percent, 55.7 percent, and 63.5 percent respectively. It is true that the projected soybean carryout is significantly larger than historical levels, but it still represents only an 80-day supply. Thus, soybeans are in a much better supply-demand situation than corn, wheat, and cotton.

The prices currently available for the four major field crops, unfortunately, are relatively the same, and do not reflect the superior carryover position of soybeans. The average price received by farmers during the last marketing year, expressed as a percentage of the current parity level are 48.6 percent for corn, 50.3 percent for wheat, 46 percent for cotton, and 47.1 percent for soybeans: Thus, while soybeans are in no better price position than the other three crops, they certainly are in no worse position. All are at very low levels.

Thus, today soybeans are in a much better supply-demand situation than of our friends seated at this table, and in no worse position with respect to price. Yet, soybeans have achieved their current situation largely without the costly programs available to the other three commodities. There is only a market-oriented soybean loan currently available to soybean producers. We have no target price, reserve program, set-aside, or paid diversion. There are no producer storage payments made on soybeans. With the exception of only about 7 million bushels of soybeans acquired under the loan program in recent months, the Government owns no soybean stocks.

At present, gross Federal outlays under the soybean loan program total only about $900 million, most of which will likely be repaid as the loans come due later this year. Except for the $38 million worth of soybeans purchased last year under the soybean loan program, there has not been a significant net Federal cost in supporting soybean prices since 1973. There has never been a soybean deficiency payment, set-aside, or diversion program. Of the four major field crops, soybeans stand out as the one which has benefited least from the Federal Treasury.

In light of the above facts, the American Soybean Association opposes any change in the current soybean program. We are painfully aware of the low prices currently being paid for soybeans and it would be easy to demand the same programs offered to corn, wheat, and cotton. Yet, we believe the facts speak against opting for a change in our basic market-oriented philosophy. If a high loan, target price, reserve, and set-aside are so desirable, then why are the other three major sectors suffering low prices and carrying over in excess one-half year's surplus?

Clearly, we believe the soybean sector is best served by minimizing Federal involvement in the supply side of the equation and expanding efforts to increase worldwide demand of our production. Instead of offering the almost $2 billion net storage subsidies available to wheat and corn producers in the form of zero-interest reserve loans and reserve storage payments, we believe the Government can best serve our industry by expanding export credits and other demand enhancement initiatives aimed at seeing that our surpluses are consumed abroad rather than stored at home.

Instead of providing incentives to soybean farmers not to grow soybeans, we favor offering our buyers here and abroad incentives to buy and use more of our crop. We know that some may disagree with ASA's market-oriented approach for the soybean industry. Nevertheless, we believe the facts clearly point out the reality that market-oriented programs have best served our industry. Soybeans continue to be America's largest cash crop and this year its largest export sector.

This year, we will export more soybeans and soybean products than we grew in 1968. Soybean acreage has more than doubled since 1965. This growth has come about through increasing world demand, not through Federal price support programs. We see no reason to change course now and opt for the expensive Federal programs which have helped to bring about the surpluses now burdening wheat, corn, and cotton producers.

ASA does believe there are several actions the Government can take to bring about an increase in soybean profitability. First, we support full capitalization of the CCC export credit revolving fund.

Many countries desperately want our soybeans and soybean products, but simply cannot buy them without credit.

Second, we favor the "in-kind" export bonus program provided for in Senator Cochran's recently introduced farm bill. We are facing increased subsidized competition from Brazil, Argentina, and other nations. The in-kind program would be a valuable tool in the effort to combat these subsidies. However, since we have been successful in preventing the buildup of burdensome surpluses, we presently do not have the large Government stocks of other commodities to use in an "in-kind" export bonus program. Also, since a large share of U.S. soybean exports to developing countries is in the form of soybean oil and soybean meal, the "in-kind" export bonus program is less applicable to our industry.

Third, ASA is strongly supportive of Senator Cochran's proposal to use CCC-owned commodities to increase U.S. food aid donations under titles I and III of Public Law 480. Since CCC does not own any stocks of soybean oil, the only soybean product exported under Public Law 480, it is essential that the cash allocations for soybean oil exports be increased when CCC-owned stocks of wheat, corn, and rice are used to increase commodity volumes exported to developing nations under the Public Law 480 program.

We believe too few Public Law 480 funds are already being allocated to soybean oil. If the Cochran Public Law 480 proposal is implemented, we hope more of the appropriated Public Law 480 funds can be transferred to supporting soybean oil exports.

Finally, Mr. Chairman, we take this opportunity to suggest the committee take a closer look at what appears to be an unintended incentive for expanded 1983 soybean production in the 1983 farm programs for feedgrains. As you know, farmers participating in the 1983 feedgrain program are required to divert 10 percent of their feedgrain base acreage to conserving use and 12.5 percent of the acreage planted to corn in order to get their paid diversion and advance deficiency payment.

Unfortunately, it is possible for a farmer to divert 10 percent of his corn base to conserving use and plant the remainder in soybeans rather than corn and qualify for the full corn diversion payment. In this scenario, the farmer plants no corn at all. His advantage is the fact that the farmer has no set-aside requirement, and therefore can farm 90 percent of his corn base in soybeans rather than 80 percent if he plants corn.

In the marginal feedgrain areas of the Southeast and the Western Corn Belt, we fear many farmers will choose this option with a substantial increase in U.S. soybean acreage and production. While we are not opposed to the program to curtail corn production, we do not believe it should provide an incentive to transfer the corn surplus problem to the soybean sector. We suggest the committee investigate the possibility of incorporating some provision in the 1983 corn program which eliminates this unintended soybean production incentive.

In conclusion, the American Soybean Association reiterates its opposition to increasing the loan level for soybeans or requiring any form of acreage control for soybeans. We certainly recognize the serious economic condition besetting soybean farmers, but we remain convinced that we should opt for the costly programs which have brought burdensome supplies in corn, cotton, and wheat sectors. Soybeans remain the crop that is in the best supply-demand situation and stands to be the first commodity to see significant price recovery as the world recession subsides.

Instead, we ask for more Federal assistance to hasten recovery in soybean prices by expanding export assistance programs for soybean prices by expanding export assistance programs for soybeans and soybean products. Our goal continues to be assisting our foreign buyers to consume more of our production abroad rather than storing surpluses here.

We urge the committee to follow the policy recommendations we have offered.

Thank you.

Senator COCHRAN. Thank you very much. We appreciate your contribution to the hearing.

The last member of the panel is B. F. Smith.

Mr. SMITH. Thank you very much, Mr. Chairman. I have with me Seymour Johnson, of Indianola, who is chairman of our farm policy committee.

Senator COCHRAN. We are glad to have him with us. Welcome.

STATEMENT OF B. F. SMITH, DELTA COUNCIL, STONEVILLE, MISS.

Mr. SMITH. We still support the basic provisions of the Agricultural Act of 1981. We think it is a good bill. However, conditions have changed dramatically since the passage of that legislation. We are convinced that some modifications and legislative changes are necessary to help farmers survive this period of great economic emergency, and at the same time assure consumers of needed supplies of food, fiber, and agricultural raw materials at reasonable prices.

You and others have eloquently outlined the condition of agriculture at the present time, and to illustrate the changes in economic conditions that have occurred, when we were working on the farm bill back in September 1980, Mr. Chairman, cotton was selling for 92 cents a pound. In September 1982, it was quoted at 58.61 cents per pound, below the cost of production.

Soybeans were bringing $8.92 per bushel in September 1980. In September 1982, soybeans were quoted at $5.22 a bushel. Rice was bringing $26 a hundredweight in 1980, but had fallen to $18 in 1982.

When we were working on the farm bill in 1980, we had the lowest cotton carryover in more than 30 years. One year later, it became evident that the carryover of cotton at the end of the market year would be at a level that would drive cotton prices to below cost of production levels.

This rapid change was largely due to, in my mind, two major factors, the worldwide recession which drastically reduced consumption, and the high production in 1981 due to favorable weather conditions.

We strongly support the bill that you and Senator Huddleston have introduced. As we understand it, this bill does four major things: One, provides for increases in loan rates for major commodities such as cotton, rice, wheat, and corn to help move prices upward.

Two, provides for more effective USDA acreage control programs to stem production increases which have contributed to downward trends in farm prices.

Three, uses the value of Government inventories of farm commodities for discount sales which would help move excess stocks of U.S. farm products in world markets and, four, utilizing a portion of the Government inventories in the Public Law 480 program to extend exports.

Attention is called to the fact that cotton is the only commodity that will be required to take a cut in the price support level in 1983. While the loan should not guarantee a profit, it should be set at a level that will help to stabilize market prices during harvest without jeopardizing the competitive position of the commodity in either the domestic or export market.

We urge that the minimum loan rate for 1983 crop upland cotton is set at the highest rate possible consistent with competitive marketing, but not less than 60 cents a pound.

While the current outlook for offtake and for an increase in carryover stocks on August 1, 1983, it is extremely unlikely that market prices will exceed the loan levels during 1983, and an increase in the loan would represent a positive step in helping many farmers to survive. It would also reduce the use of target price payments for cotton by 5 cents per pound.

While the Secretary is to be applauded for his timely implementation of authorities given to him by law to reduce production, I believe a recognition of some of the shortcomings of the act of 1981 need to be addressed. Perhaps the most serious of these shortcomings is the absence of any provision of achieving needed production adjustments in a positive manner.

The fact is that the limitation of program benefits is a direct hindrance to voluntary compliance to production adjustment programs that are urgently needed for the welfare of the entire agricultural community.

Also, the fact that land diversion payments are included with deficiency payments in determining a farmer's program benefit eligibility status greatly reduces the effectiveness of this program as one of the prime management tools available to the Secretary.

With current production and offtake estimates indicating an increase in the carryover of cotton at the end of 1982-83 marketing year, and with the outlook for continued below-cost-of-production market prices, the need for more effective production adjustment tools is a matter of overriding importance, Mr. Chairman, and we urge that attention be given to this by this committee and by the USDA.

Also, another fact should be mentioned. Recognition should be given to the fact that the huge increase in the national cropland base that has taken place over the last 10 years would tend to negate efforts to achieve and maintain a manageable level of supply—unless actions are taken to reduce this excessive production capacity to more realistic levels.

Beginning with the act of 1973 and then fueled by the world food crisis of 1973, farmers have been encouraged to increase production to fill demand of rapidly expanding export markets. Harvested croplands—harvested, not planted—harvested croplands have increased from 289 million acres in 1972 to 353 million acres in 1981. That is 64 million acres of increased, harvested cropland.

Downturns in demand brought about by worldwide recessionary factors and prospects for a slow economic recovery clearly indicate the urgent need for some kind of a land retirement program designed to reduce productive capacity, improve soil fertility, and to minimize the loss of topsoil to wind and water erosion.

There is going to be a need for a larger cropland base in the years ahead and public interest will be served by maintaining these excess acres in a state of readiness.

We believe that the cost of an effective land retirement program would be less than the expense of overproduction resulting in surplus supplies that depress market prices to lower and lower levels, and we urge that a program of this kind be given consideration.

Additionally, we endorse the added market development proposals that you have included in this legislation. We believe that CCC stocks can be used effectively as bonuses to achieve additional sales and expand the Public Law 480 program.

Authorization of this kind will represent another tool that could be used by the USDA to expand markets.

I wish to add, however, that this program should be operated in a manner that will retain the one-price concept for cotton and for as many other commodities as possible. We think this is very important.

As an additional step, we wish to point out that efforts should also be made to barter agricultural commodities for oil and other strategic materials.

With regard to the concept of retiring entire farms, well I cannot speak for corn and wheat, but a program of this kind for cotton would have a devastating impact on the economy of agricultural communities. Congress has always provided safeguards to prevent undue economic hardship on agricultural communities, and we urge that such safeguards be provided in a program of this kind.

Also, once the excess stocks are reduced to manageable levels, supply management and market development programs must be effectively operated to prevent a recurrence of the problem in a very short period of time.

Mr. Chairman, we are grateful for this opportunity, and I want to thank you very much.

Senator COCHRAN. Thank you, B. F. Smith. We appreciate all of you being here and contributing to the hearing in the ways that you have.

I have already had an opportunity this morning to ask a number of questions of panel members. I think, since we do have others who have joined the hearing at this time, I will defer my questioning until they have completed asking any questions they may have. In the order in which they appeared, I recognize Senator Dole first.

Are there any questions or comments that you might have?

STATEMENT OF HON. BOB DOLE, A U.S. SENATOR FROM KANSAS

Senator Dole. Well, I want to express my thanks to Senator Cochran for holding the hearing, first. I think it is a very timely hearing. Secondly, I want to express my thanks to the panel which has just finished testifying, and the others who have, and who will after this group.

There is no doubt about it, we have got a real problem in agriculture, and each of you touched on different portions of it. I am not certain I am ready to conclude that because we have not done more in soybeans that they are better off than the other commodities, but it might be worth considering, but we have—our problem is we don't have any money. We don't have any, and it is your money, which makes it even more difficult to try to find innovative approaches to lift market prices and at the same time expand exports, and do a lot of things that certainly [telephone rings] I hope that's not somebody calling now with another program, but in any event [laughter].

Therein lies the problem, and I think Senator Cochran and Senator Huddleston are certainly providing the leadership that we need at this time. Whether we can do anything before Congress adjourns next week or the following week is probably pretty hard to determine.

As I understand, you all have some reservations about this so-called PIK program. I think you have indicated we don't know enough about it, that we have tried it before. It does need a big public relations job if it is going to be sold to wheat, corn, soybean, and cotton people, or whatever.

I think on the other hand we have got to do something about East-West trade policy. I think President Carter laid it right out front. He imposed an embargo. President Reagan lifted the embargo, and we still are not selling anything to the Soviet Union, so we really still have an embargo. We are not permitted to enter into long-term agreement discussions, and until that happens, I don't see how we are going to improve trade with the Soviet Union.

Certainly there are strong reasons we may want to reserve judgment on the Soviet Union. We do not agree with their policies in Poland or Afghanistan, their human rights, and there are a lot of other things we disagree with, but I am not certain what the alternatives are if we do not have some trading relationship with the Soviet Union, and there are not any easy answers, but we certainly believe that those who have been here today really understand agriculture in your own areas, and you understand the commodities you represent. We are going to try to work with you and the Secretary to come up with some way to keep this crisis from spreading, because agriculture, of course, is the key to our economy.

I think the export enhancement—I read the co-op statement while I was listening to others—and there are some good ideas in that statement as far as export enhancement is concerned, and there are probably some ways that we could do it that would not be that expensive. We need to be more aggressive in our export efforts, and I do believe that it is time that we started discussions on a long-term agreement. In fact, it is past time that we started discussions on a long-term agreement. We are losing markets to the

EC countries. We are going to devote a great deal of our time next year in the Finance Committee on trade, which just seems to most of us—and I have heard Senator Helms say this in Geneva—we have got to demonstrate that we really want to be competitive.

We cannot do it with rhetoric. We are going to have to pick out a few commodities and show, or demonstrate, in a friendly way that we will compete, that we are not going to continue to lose markets. Until we do that, I do not see any reason for the EC or any other country to back away from their present position.

We should not engage in a trade war. We do not have enough money. As you said, it is a battle between two treasuries, not between farm groups, and there also is access to other markets that we are working on.

The Japanese are making some concessions in citrus and tobacco areas, even as recently as yesterday.

I do not have any questions to the problems. I don't have any answers, either.

Thank you.

Senator **Cochran**. Thank you, Senator Dole.

Senator Helms.

Senator **Helms**. I will yield.

Senator **Cochran**. Senator Huddleston.

Senator **Huddleston**. I will ask one question.

If the payment-in-kind program is initiated and the farmer has a choice of either taking his payment in kind or taking cash, which do you think he would opt for? Is there a controlling factor that would push him one way or the other?

Mr. **Smith**. He would opt for cash.

Senator **Huddleston**. Opt for the cash?

Mr. **Bailey**. The reason for opting for cash is the hazard of the true market value of the commodities that he receives back. This has to do with whether it could go back into loan or not. If that product could go back into loan, then it has a floor price.

If it could not go back into loan, then he is at hazard, at risk as to the true value of what he is receiving for his land retirement.

Senator **Huddleston**. But he does have the opportunity to get more back if the market reacts favorably.

Mr. **Nelson**. But he has to spend some money to hold that grain. He is speculating with that grain for maybe a period of several months, or even longer before he knows what the prospects might be.

Mr. **Smith**. The concept of going back into loan, taking it out and going back in, raises some problems, and I wonder couldn't this be partially solved by providing a reasonable period of time, with no carrying charges or interest, in which the farmer could market his PIK's.

Senator **Huddleston**. We suggested that to the Secretary who at that time had not made a clear decision on it. But, it seems, that if you do give the farmer the time, before he has to claim possession or pay for the storage——

Mr. **Smith**. If you do not do something like this, PIK's will be discounted because everybody will be trying to get them out at the same time.

This raises another question. Is the farmer going to have to pay income tax on the value of the PIK that the Secretary sets, or is it going to be what he actually receives?

Senator HUDDLESTON. The guy just left. [Laughter.]

He ran out on us just at the crucial time. That is why he has survived so long, he knows when to leave. [Laughter.]. It is a good question.

Mr. BAILEY. I have got one other question that relates to that.

Senator HUDDLESTON. Fine.

Mr. BAILEY. That being that the location of these commodities and the location of the individual operator come into play very much.

Senator HUDDLESTON. Where they are actually located.

Mr. BAILEY. The reference to discount has to do not only with just a weighted volume on the market, but has to do with the location, and I have heard, again, information that it is quite likely that those warehouse receipts or those certificates might only be negotiable in an ASCS office. That might be worked into it.

There is one hazard that I see here, and I think one we must guard against, is that we could be backing into a commodity board. We could set up an artificial grain trade available at our Government office.

Senator HUDDLESTON. Operating through the ACS's then.

Mr. BAILEY. Yes.

Senator HUDDLESTON. Well, I haven't heard the Chicago Board comment on that yet, but it might have interesting aspects. [Laughter.]

Thank you, Mr. Chairman.

Senator COCHRAN. Senator Helms?

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. I want to compliment you for holding these hearings, and I want to pay my respects to this panel. I told Bob Dole that I have never heard more articulate gentlemen preaching the sound of gospel, and the American people had better understand it. If the farmer goes down in this country, then the country goes down.

I have just come from the Foreign Relations Committee. I have to put on one hat and take it off and put on another one, but the longer I am on the Foreign Relations Committee, and I am now the second ranking member on our side, the more persuaded I become we need an American desk down at the State Department so that they can understand what it is all about.

I do not want the American farmer to be any longer a pawn in the hands of diplomats.

Let me ask you one question about PIK. I have got a lot of questions in my own mind, and you have raised a lot of them. We are all hanging by our fingernails trying to figure out what to do with farm programs, and how, and when, and how much, and with what. It is like Bob Dole says, we don't have any money unless you want to trade on a deficit.

But if for some reason a PIK program is not or cannot be implemented in 1983, would you speculate for me, any of you, or all of you, what you would expect in terms of farm prices and the cost of the USDA program? Is that too much to ask you to do?

Mr. **Smith**. Farm prices, I think, for all the major commodities will continue to go at just about the level of the loan, whatever that level is.

The program will continue to cost more because of the target price payments that are provided in the law, and I don't happen to think that they are too high, because they certainly represent a source that is desperately needed by farmers, although I am sure the Secretary thinks they are too high.

I, for one, think that this program can be implemented, although you have to recognize the fact that implementation is going to be different with each of the crops. Cotton is vastly different from wheat or these other crops. I would throw out some broad guidelines and then I would get the industry leaders together to develop operating procedures for specific crops.

I think it merits our attention, anyway. After all, this is about the only ball game in town.

The **Chairman**. Do you agree with that?

Mr. **Weems**. Basically, yes, Senator, but I see, if we don't control the ability of acreage to be switched, as I mentioned, from corn to soybeans, we may see an increase in acreage of soybeans and thereby see a decrease in the price of soybeans.

Mr. **Bailey**. My comment would be, given the 10 and 10 that is now available, that probably corn prices would trade below loan, and the situation would aggravate itself because of the switches between commodities: I personally can grow wheat, soybeans, and corn on my farm, and the restrictions now imposed as I understand them would play into the switching so that the free stocks outside of that that was projected by the loan would be such that probably they would trade below loan.

So we do have serious ramifications. As far as the expense to the Government, it would be tremendous, because the free stocks we now have would be a continued weight on the market with no increase in export demand and very little possibility of much increase in domestic demand, so you could almost guarantee that all qualified stocks would come into the Government program and would come in to the maximum degree.

I can't give you a figure right off the top here, but it would be tremendous.

Mr. **Nelson**. In the case of wheat, most definitely there would probably be an increase in stocks. There would not be a reduction. With the 15-5 program we presently have, even with a fairly good percentage of participation, we probably would still see an increase in the carryover by the end of the next marketing year, and that would include some increases in costs, probably, as well.

Like Veryl, I cannot give you a figure of what that would be, but there would be no good news to help buoy wheat prices in that coming year.

The **Chairman**. Mention was made, and I don't remember who mentioned it, of the GATT Ministerial. A couple of weeks before Thanksgiving, I got a call from the White House saying, "We want you to go over there." I wanted to go like I wanted a hole in the head, but I went anyway, and I am still trying to make peace with my grandchildren. Having gone over there, I was astonished really at how EC countries, for example, do not believe that the United States intends to become serious on these trade issues.

We must have met with 20 or 25 delegations. All of the meetings were models of civility, but they just did not believe us. You know they do not believe the United States means business.

I think they do now, and I agree with you that nobody wins in a brawl, but on the other hand you don't win if you don't put up a fight. So I hope that Congress will act and I think the Congress will move along toward doing some things to set the trade picture straight.

Thank you, gentlemen.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator Helms, very much.

Senator Boren?

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

Senator BOREN. Thank you very much, Mr. Chairman, and I want to join the others in commending you and Senator Huddleston for calling these hearings and for making the suggestions that you have.

I think it is important that we examine every possible suggestion for improvement in the agricultural situation. The annual net farm income figures for 1981 came out about 3 weeks ago. They were $14 for the year, average net farm income in 1981 for the State of Oklahoma. I had several farmers contact me after that and they said, "Senator, we are shocked at those figures." I said, "So was I. We didn't think they would be that high."

They will not be that high when the figures come out for 1982. They will definitely be written in red ink. We are in a desperate situation.

I think it is certainly commendable that we are looking for ways to improve the situation. I think the main point I would want to make now, and I am going to ask unanimous consent to submit a full statement in the record,[1] is that if we are going to a payment-in-kind program, we have to realize that it cannot be a substitute for existing farm programs, or other steps that are necessary.

We are going to have to put some money into our agricultural export credit revolving fund, we are going to have to keep a floor on the market prices. We have heard the panel clearly say that there has to be some translation of a payment-in-kind program into a cash value that is sustainable and stable.

I expect we are still going to have to find ways of maintaining some paid diversion in order to generate cash flow, and we are going to have to do other things if we are to improve the market situation.

So there are many things to be worked out if we are to embark upon this kind of program, and I think the first basic principle that

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[1] See p. 99 for the prepared statement of Senator Boren.

I would want to stress, without going into my full statement, would be that it cannot be viewed as a substitute for other kinds of actions that are going to be absolutely essential if we are going to save the agricultural sector from collapse. It is already in the midst of a depression, not a recession—a depression, in the midst of it—and we are going to have to take other actions.

There are problems. How do we translate the values and put a floor under them in terms of a verifiable loan value, how do we increase the market demand for what we have on hand? One of the results, if we don't take other action, could be simply to intensify our short-term market problems. It might help us in terms of the long term by decreasing carryover stocks but if we don't have additional actions on payment-in-kind, we could intensify our short term, our immediate, market problems.

I also would just echo the concern that members of the panel have expressed in terms of how we do it. Taking whole farms out of production, how do we decide which farm? These are real problems for agricultural communities, as has been expressed, and for support of the infrastructure for agriculture, and I think we have to look very carefully at the way we administer such a program and the impacts it could have on the total community.

Mr. Chairman, I would ask unanimous consent to put my full statement in the record. I want to congratulate the panel. I have had an opportunity to read the statements that I didn't get to hear personally, and I very much appreciate their coming in. But I would urge you to view this as a supplement, and not a substitute, for other kinds of actions that are going to be necessary in the field of farm legislation this year.

I again commend you, Mr. Chairman, for your interest in exploring this idea, you and the Senator from Kentucky both, and I think it gives us real grounds for additional thought, for improvement of the program, not only in this area, but in other areas as well.

Senator **Cochran**. I thank the Senator very kindly for his comments.

The Senator from Minnesota.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator **Boschwitz**. Senator Cochran, I join in the other comments that were made with respect to your holding this meeting. I also join in many of the comments that have already been made.

I disagree a little bit with the Chairman's view that nobody wins in a brawl. I think that a good fight every once in a while clears the air; and I think we have to be prepared to do that with the Europeans, whether collectively as Senator Dole indicated in his comments, or on a more general basis. We have to show those folks that we are serious. As Senator Helms suggested, they don't think that we have the resolve to do in effect what they are doing.

There are a number of areas where we can perhaps make an impression on them. One of the things that makes it possible for them to be so generous to their agricultural sector is that our taxpayers are taking care of a good deal of their defense costs.

The Europeans spend about half the percentage of their gross national product on defense that we do, about 3 percent. I notice the French are reducing their defense costs, and perhaps there is no necessity for them to do that because we are spending scores of billions of dollars, and have 350,000 of our people over there. While that is in our national interest, it is also in our national interest to get them to pay for a little bit more for their own defense.

The same applies in the Far East, where we have about 140,000 people, and where the Japanese spend less than 1 percent of their gross national product on defense. If we made those countries pay for the use of our defenses, Mr. Chairman, we wouldn't be talking about a budget deficit. We would be talking about how to spend the surplus.

As we can see, there are a number of interrelated areas. I think that the PIK is a fairly good new and fresh approach. It is not clear to me—I didn't hear all the testimony. Perhaps I can just ask each gentleman, from my right to my left, to state whether or not, you agree with the approach of a PIK program.

Mr. SMITH. I think it has real possibilities. I think there are some factors that will have questions and will have to be answered, but certainly I do think it is worthy of pursuit, and has real possibilities.

Mr. WEEMS. I likewise think it has possibilities. We are not sure how it is going to fit into the soybean end of it, but it has possibilities,

Mr. BAILEY. With the tremendous need for a supplementary program in coarse grains, this is a program that needs to be nurtured and helped along.

I would like to make one side comment here. A comment came out earlier this morning that they really didn't see how, see how maybe, the PIK could work on the dairy side, and just try some kind of a bargain deal with the dairymen on leaving some of his cows dry sometimes and given him some product that has economic value. You might be surprised.

I make that as a kind of tongue-in-cheek comment here, but on the other hand, let's not——

Senator BOSCHWITZ. Let me comment on your tongue-in-cheek comment, but maybe I should hear the wheat growers first.

Mr. NELSON. Well, we certainly look favorably on the concept, and I am sorry to be so ambiguous, but frankly we have not had a lot of information on the program yet, and it makes a lot of difference as to what the percentage of rate might be on the payment and if it is included in the $50,000 payment limitation or not, and things about the resale price. All these things have to be ironed out before we can really say yes or no.

Senator BOSCHWITZ. My feeling is that it is the most imaginative and aggressive program that has come to the committee and addresses some of the problems. I think it has to be combined with an export PIK.

I like the thoughts of the National Council of Farmer Cooperatives, with which I am familiar. I do not want to raise the prices through a domestic PIK and encourage foreign producers to pick up the slack we create in the world markets. It is important that we also aggressively approach the world markets as we ask our farmers to cut back.

As I listened to my friends from the corngrowers speaking about the dairy farmers and read between the lines, with all due respect to my friend from the American Soybean Association, I believe that the various producer groups, the various farm organizations and the various dairy organizations certainly are not as unified in their affairs; now they, pull in different directions.

I think that was possible when 30 or 35 percent of the folks lived on the farm and you had some real political clout, but this Senate is a very urban body. The House is even more so, I suspect.

So I think it is very important that the various farm organizations act in concert, iron out their difficulties that they may have with a particular program, and come to us acting in concert.

I think we will get more done.

I very often find that some of my colleagues are confused by the various proposals that various organizations come in with, and it is certainly not exclusively the province of farm organizations to do that. I find that now in the truckers' bill that is before us.

But it would strenghten the position of all farmers, all farm organizations, if they would iron out their differences and come with a more united front. Reasonable men will differ. We in the Senate are all reasonable, and we understand that very well; nevertheless, I think it is important.

I will try to introduce the element of military aid, which gives some of our trading competitors such an enormous advantage over us because we pick up such a large percentage of their military budget. For this Senator, and I think others, we are very prepared to fight. Whether it be selectively, or maybe engaging in a little wider brawl, it always clears the air. I am very prepared to do that and push that along as much as I can.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Senator.

I again want to express my personal appreciation for not only your being here, but for taking the time to analyze the proposals that are pending before the subcommittee, particularly the bill that Senator Huddleston and I have introduced, and for those of you who are not enthusiastically on board, we will talk to you after the meeting. [Laughter.]

We need to do a little more homework on it, maybe, but I do appreciate the generous comments of Ralph Weems and all of you, Veryl Bailey, who have been here, and trying to find a way to improve the conditions that our agricultural economy finds itself in today.

I do not know that there is a higher priority in Government today than doing something constructive about the sad state of the agricultural economy.

So it has the attention of this subcommittee, and every effort is being made to get the attention of the administration.

The word we have is that the President and the Secretary have agreed on a statement that will be released soon. We are going to ask the Secretary to delay his coming up here until that is done, and we will reconvene the hearing, after the next panel has presented its testimony, until 2 o'clock for the purpose of receiving the statement of the Secretary and having questions put to him on the administration's position on this problem.

Again, we thank you for being here. We appreciate your contribution to the hearing.

Our next panel will be Shirley Culley, representing the Cotton Warehouse Association of America; Samuel Reeves, president, American Cotton Shippers Association; and Stephen Gabbert, executive vice president of the Rice Millers Association. If you would come forward, we would appreciate it very much.

I think the committee will stand in recess for a period of about 5 minutes.

[Recess taken.]

Senator COCHRAN. The committee will come to order. We will resume our hearing with our last panel this morning. Our last panel includes Shirley Culley, representing the Cotton Warehouse Association of America; Samuel T. Reeves, president, American Cotton Shippers Association, accompanied by Rudy E. Scheidt, chairman of the committee on national affairs, Memphis, Tenn.; Dewell Gandy, agricultural economist of Memphis; Neal Gillen, general counsel; and Stephen Gabbert, executive vice president of the Rice Millers Association.

Welcome to the committee. We appreciate your presence, and we hope that you will be able to make summary statements from the written statements you have submitted to the committee, which we thank you for.

We will include those written statements in full in the record here.

You may proceed, Mrs. Culley.

STATEMENT OF SHIRLEY S. CULLEY, MEMBER, BOARD OF DIRECTORS, COTTON WAREHOUSE ASSOCIATION OF AMERICA

Mrs. CULLEY. Thank you, Mr. Chairman, and members of the committee.[1]

I appreciate the opportunity to testify before you today. My name is Shirley Culley, and I am president of the Flora Compress & Warehouse Co., Inc., in Flora, Miss. I am appearing before you today on behalf of the Cotton Warehouse Association of America, of which I am a member and on whose board of directors and executive committee I have served for the past 3 years. Accompanying me is the association's executive vice president, Don Wallace.

In summarizing, as my testimony reads, we of the Cotton Warehouse Association are one of the first to realize a need to reduce the stocks of our various commodities, but we do question the judgment of the Department of Agriculture in proposing a reduction of acreage in cotton that exceeds 33 percent, and we are assuming that they are using the 15 million base.

Our surplus stocks of cotton are not that great when you consider that a series of national disasters such as the flood, which is what we are having now, and hailstorms, can destroy a large portion of a crop, and could leave our supply on the short side. Cotton is so unlike your other commodities in that it can be stored for years without deteriorating in quality.

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[1] See p. 118 for the prepared statement of Mrs. Culley.

I have discussed the 40- to 50-percent reduction in acreage with the leading farmers, bankers and agricultural leaders of my State. None of them feels that a severe reduction like this is good for the agricultural community. In fact, the fears expressed were that this type of reduction would be disastrous to every segment of agriculture and ag-related businesses, even bleeding over into our financial institutions.

Mr. Charman, I commend you and Senator Huddleston on your foresight concerning our plight. I pray that your bill, S. 3074, along with the results of this hearing, will make our Government officials realize the destructive power that they now hold over our heads, and that they will act with extreme caution.

I thank you.

Senator COCHRAN. Thank you very much, Mrs. Culley. We appreciate your comments, and the help that you and Don Wallace have been to this committee. Thank you a lot.

Next, we will hear from Mr. Samuel T. Reeves.

STATEMENT OF SAMUEL T. REEVES, PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION

Mr. REEVES. Thank you, Mr. Chairman. I would like to take the opportunity to summarize the statement for the sake of time, noting that your staff is well acquainted with some of the points that we will make.[1]

Our testimony today will review the current world and domestic cotton situation and suggest guidelines that the administration and Congress could pursue in order to improve the U.S. cotton economic situation and prevent its further deterioration.

At the outset, I would like to state that cotton is, and should be, clearly distinguished from wheat and feed grains. Our problems, while no less complex, are different in scope.

Beginning in the early 1970's, we moved from a Government-oriented-type program to a free market, world-free-market-type program. On average, production and consumption rose during this period. More important, farm assets and income rose dramatically.

Overconfident with our success in these areas, we gradually allowed ourselves to dilute the basic premises of a market-oriented system.

We drifted back to rigid minimum loans, unrealistic loan differences and target prices unrelated to world market prices. We objected to the retention of the concept of a minimum loan in our testimony to this committee in 1981, noting that, and I quote:

> It must be approached with caution, if we are to avoid the mistakes of the past when minimum loan levels subsidized the production of foreign growth of cotton.

We now find ourselves in the inflexible and vulnerable position of only being able to market a percentage of U.S. cotton at world prices. The situation has been further impacted by 2 consecutive years of above-average yields in the United States matched by increased foreign production and yields. The strength of the dollar has had a great impact, also. The dollar has been an encouragement, particularly to the Socialist and soft currency countries to increase their production. We now find ourselves the residual supplier of cotton. Unless positive measures are adopted, we will remain in this position.

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[1] See p. 121 for the prepared statement of Mr. Reeves.

Many recall the helplessness we felt during the 1960's as we create a similar situation today.

Briefly, I would like to go over the world cotton situation.

The carryover at the end of this marketing year will be approximately 30 million bales. That is approximately 9 million bales too much, an acceptable carryover being 21 million bales, or a 4-month supply. World production this year will approximate 68½ million bales, with an offtake of approximately 66 million bales:

Several months ago, I was a delegate to the meeting of the International Cotton Advisory Committee in Egypt. At that conference, all major cotton-producing countries of the world were in attendance. Of the 49 countries in attendance, 47 indicated that next year they would either increase or maintain their cotton acreage.

U.S. cotton must attempt to compete in a world marketplace with 74 cotton-producing countries, of which 14 produce 90 percent of all the world's cotton.

We cannot escape the fact that loan levels designed to primarily benefit U.S. producers can in reality equally benefit foreign producers, particularly those in centrally controlled governments who have more flexibility to rapidly increase plantings and take maximum and immediate advantage of our mistakes.

A good example today is China; 3 years ago, they imported over 4 million bales, of which the U.S. share was almost 2 million. This year, they will import less than 1.5 million bales, of which the U.S. share will probably be zero. They have indicated in the last week they will continue to expand their production at the rate of 4 to 5 percent a year, and in the near future they will be a net exporter of cotton.

I realize that verbalized expectations may not result in concrete reality. But when I look at China's statistics in the last 5 or 6 years, I must listen seriously to their words,

The U.S. situation: At the end of this marketing year in the United States, we will have a carryover of approximately 8 million bales. We need approximately 3.5 million bales. In 3 years, the domestic consumption has decreased 19 percent; in 10 years, 32 percent. In 3 years, U.S. exports have declined 42 percent, falling back to the level of 10 years ago. This means our exports have been brought down to approximately 5 million bales.

To summarize, in the world there is approximately 9 million bales excess supply with about half of that being in the United States.

Legislative resolution of the problem: Legislatively, there are three concepts that must be addressed:

No. 1, the minimum loan concept must be discarded; two, the target price concept must be reconsidered; and three, the restrictive resale policies of the Commodity Credit Corporation preclude the sale of CCC stocks due to the formula of release of said cotton.

Also realizing that farm legislation is a delicate, difficult, and time-consuming process, we fully understand that our suggested changes in the current law, even if agreeable to the industry, the Department, and the Congress, cannot be implemented on a timely basis to deal with the critical problem at hand.

Administrative resolution of the problem: The Department has indicated it will act, possibly by January 1, 1983, to implement modification of the announced 1983 cotton program through the use of payments-in-kind to accomplish additional reductions in planted acreage.

Cotton's problems, while significant, pale in comparison to those of grain. Therefore, we seriously recommend that full compliance in the announced program, of 20-percent voluntary reduction plus 5-percent paid diversion, be the primary objective. Additional reductions over and above this must be approached with great caution if we are to avoid the following negative effects of an excessive acreage cutback:

Cotton being different from grains, if we cut back the desired quantities too greatly, you deprive the United States and foreign mills of cotton which the U.S. producers have supplied them for years, and are needed—in essence, increasing the price of cotton, which decreases the possibility of exports.

We then have the possibility of foreign production taking up the slack of reduced U.S. acres. Finally, we have local communities being adversely impacted as suppliers, processors, and service industries experience reduced volume. In an environment of record high unemployment we must avoid further economic injury to these related industries.

It was released last week in a survey from the University of Texas that this past year that the floods caused a cash receipts decrease of approximately $750 million and related industries of $1.5 billion—2 to 1.

The payment-in-kind program: We are suggesting that the payment-in-kind program for cotton must strive to move the cotton in surplus to market at world prices. We recommend that the first purchaser of the cotton compensate the farmer the market price and the value of the PIK certificate. The borrower then utilizes the PIK certificate in exchange for loan stocks from producers or stocks from the CCC.

In this manner, the producer complying with the program would receive a price incentive and U.S. cotton can be sold at world market prices to United States and foreign mills. This method of operation moves our stocks to consuming markets, thereby moving the burden of acreage reduction to our foreign competitors.

This type of PIK program, I believe, will pull existing stocks through the market system. It will be an offensive method rather than a defensive one, and will reduce the possibility of great dislocation to related industries. I believe that if we severely reduce acreage, it will be a defensive mechanism, and the foreign acreage will take its place in the world markets.

It seems to me that this morning I have heard that we have basically worked from upstream and tried to come up with a concept of a loan price, and then tried to make the market work. It seems like that we need to go downstream, address the market, how we impact the world market, how we can impact the additional acreage increase that these foreign nations are going to continue to try to plant. We must impact that, and then move back upstream and seek the desired results to make the commodity sell in the marketplace.

We would suggest that cotton be sold at world market prices. We could increase the U.S. export position and deter world production through the greatest deterrent of all—price.

In conclusion, we compliment you, Senator Cochran, for acknowledging the problem, and for your willingness to face the hard realities. And we especially commend you for the preparatory work that you and your staff have engaged in over the last 2 months in leading up to this hearing.

Thank you.

Senator COCHRAN. Thank you. We appreciate your kind comments, Mr. Reeves, very much.

Mr. Gabbert? Stephen Gabbert is executive vice president, the Rice Millers' Association.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, THE RICE MILLERS' ASSOCIATION

Mr. GABBERT. Thank you, Mr. Chairman.[1]

We appreciate this opportunity to comment on those parts of S. 3074 that address our industry's current problems. We feel that introduction of this bill initiates badly needed congressional consideration of the U.S. agricultural crisis, which in our opinion is about to assume monumental proportions.

I think if you examine the financial and logistical dimensions of what could be taking place in agriculture within the next several months, we are going to find them overwhelming.

It probably is moreso inconceivable when you realize that the current situation could be the beginning of a cycle that is going to continue to worsen unless exports are stimulated.

I would like to give you a brief description of where we are in the rice industry. Basically we are in a state of market depression. We are a commodity that must export 65 percent of our crop. At the present time, we are noncompetitive. There is very little rice from the United States moving into the world market.

There are several reasons for this, which we share with other commodities: the world recession, strong dollar, world overproduction, and particularly subsidized competition, especially on the part of Taiwan, Japan, and the EEC, who have been dumping highly subsidized rice, into the world market.

So we view rice's problem as really being in the export market, not one of domestic marketing. There is a large inventory of rice in CCC stocks at the present time, approximately 19 million hundredweight. We expect that out of the 1982 crop, as the situation continues to deteriorate that the potential exists for the CCC to acquire between 45 to 55 million hundredweight of rough rice.

This gives you some dimensions of the problem. Total stocks could amount to approximately 50 percent of 1982 production. We do not know where the CCC is going to find adequate storage space. In fact, Government had better stop worrying about where to put the MX missile, because we may need some of those missile silos to put rice in, and maybe some other commodities.

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[1] See p. 128 for the prepared statement of Mr. Gabbert.

But as I said earlier, we view the situation as being one that should be remedied by looking at the demand side, by developing an export stimulation program. This is the particular area that we are supportive of within S. 3074.

You know, Mr. Chairman, one great American said, and I do not know whether it was Oliver Wendell Holmes or maybe Tom Abernathy, that an ounce of history yields a pound of logic. There was a significant ounce of history that took place in 1958 when there were similar conditions of commodity oversupply. It was on December 15, when another Republican Secretary of Agriculture, Ezra Taft Benson, initiated a PIK, payment-in-kind export program.

That program worked well and continued up until 1972, but prior to that—after the inventories of the CCC stocks were exhausted—it was converted to a payment-in-cash program. I have noticed this morning that in talking about the PIK program there has been some confusion. Some people have generally referred to a PIK program. Actually, there are two that we are looking at. There is a PIK domestic program, of which we do not know much about and will probably be proposed today by the administration. Then there is a PIK export program which we know was used, tried, tested, and worked successfully.

One of the political slogans that was used in 1958 by Secretary Benson in implementing the PIK export program was "Use a surplus to move a surplus." I think that is very applicable to today's situation.

The basic question is how to best use CCC stocks in view of the political and budgetary realities we are facing. When we view the current oversupply situation as an export problem, then the best way to use those CCC stocks is to enhance exports, to have an export stimulation program such as a PIK export program.

There are filing cabinets full of history down at the USDA now where they have the regulations and all the available data that were used for implementing the PIK export program. This program allowed the rice industry to close the gap between world prices and U.S. prices. We were, as I said, quite successful in moving out CCC inventory at that time and significantly reducing surpluses.

It was a very simple program in operation. It addressed the heart of the problem. That, again, is an export problem. We recognize that a PIK export program is essentially an export payment program. However, this is permissible under article 16 of the GATT, which essentially allows a country to apply an export subsidy in order to maintain its equitable share of the world market. This is what we are asking for, the tools to help maintain our traditional share of the world market which has been eroded by subsidized competition, and by predatory pricing practices and policies of foreign governments.

Mr. Chairman, the Secretary of Agriculture does not need any legislation to implement a PIK export program. He has the authority to do so under the Charter Act of the CCC. It could be done tomorrow if he wanted to. We think it would result in a significant improvement in the present export situation.

At some point we will need an export stimulation program. Either we will address the deteriorating export situation now, or in the next 3 or 4 months.

Hopefully, we can do something about exports now. But I become pessimistic the more I talk to people in Government and review what is happening here in Congress. We have a short period of time before the present session ends. It will be in the new Congress before any legislation is passed. That will mean further delay.

I think that along with a PIK export program, we need to develop an agricultural export strategy. We do not have one now. We need an export strategy that utilizes available tools that we are not using, such tools as, for example, the negotiation of a long-term agreement with the Russians.

A couple of other things that have not been mentioned. The United States provides economic support funds (ESF)—this is foreign aid—in the amount of approximately $2.5 billion to friendly countries. These countries are turning around and buying their commodity requirements from other suppliers. Egypt is an example. Egypt receives—I am not sure what the exact amount is—a significant amount of that $2.5 billion. Egypt has been buying its flour requirements from the EEC, which is subsidized.

I think we should use ESF funds to leverage purchases from the United States for the recipient countries' commodity needs.

I think another point that is going to have to be looked at is that when we consider our bilateral trading relationships we should examine them in the whole context. Mr. Boschwitz was getting at this point. That is, we should include what the defense picture is. There are countries to which we provide significant defense contributions, like Japan and the EEC. These contributions ought to be taken into account in considering the total trading picture, particularly with respect to access.

So, in closing, we restate our point, and that is that part of the solution to the current oversupply problem is in the export area. We do not think this aspect has received enough attention this morning. We hope that you will examine this very closely.

We do recognize, though, that there have to be production adjustments; however, let's not forget about exports. We urge the subcommittee to look at a PIK export concept very closely.

Thank you very much, Mr. Chairman.

Senator COCHRAN. Thank you, Mr. Gabbert.

I might say that we have received statements from other associations and individuals which we will include as part of the record, including statements from the Cotton Pool, Inc., of Texas, the National Association of Farmer-Elected Committeemen, and Western Cotton Growers Association.[1]

I apologize to you for the hearing running a little longer than we had anticipated today. I know that it is a matter of inconvenience for some of you to have to remain here in the hearing room for this length of time, and I will say again that at the conclusion of our hearing we will recess and reconvene in this room at 2 o'clock to hear the testimony of the Secretary of Agriculture.

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[1] See p. 132 for the statement of Cotton Pool, Inc.; p. 141 for the statement of the National Association of Farmer-Elected Committeemen; and p. 141 for the statement of the Western Cotton Growers Association.

I think that most of us have already had an opportunity to talk about some of the major features of the legislation that Senator Huddleston and I introduced in the Senate last Friday. I know that Wayne Boutwell and Keith Heard of my staff and others have had an opportunity to talk with many representatives of producer organizations and farm organizations around the country in an effort to get initial input into the process of developing an initiative.

Your cooperation with us in that effort is deeply appreciated, and I want to thank you for that. Your being here today and providing us with your statements and observations and the benefit of your experience has been quite helpful. It makes the record of this hearing very valuable in our effort to develop an appropriate response to the serious problems that American agriculture faces.

Let me say, while I do not have any specific questions of this panel, I do not want to leave the impression that by not asking you questions we don't have some unanswered questions, questions left to resolve.

I think it is obvious from all of the testimony today that there is a difference of opinion among farm groups and witnesses who have appeared about the appropriate level of Government support, the kind of export policy that we ought to follow, but I am encouraged that we are on the right track in trying to do something quickly to improve the opportunities for farmers in this country to make a living.

The outlook is bleak. We are confronted, as I think Mr. Gabbert pointed out, with an actual crisis in agriculture, and it has to be addressed, and I am as anxious as you are to hear the reaction this afternoon of the Secretary of Agriculture to these suggestions.

Thank you very much for your participation in this hearing.

The hearing will be in recess until 2 o'clock.

[Whereupon, at 12:42 p.m., the hearing recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Senator Cochran. The subcommittee will come to order. We will reconvene the hearing.

We appreciate very much the Secretary of Agriculture, Mr. Block, being here to testify before the subcommittee on provisions that have been recommended to improve the opportunities for profit on our Nation's farms.

This morning, we heard from several panels of witnesses, including commodity production group representatives, farmer organizations, Members of Congress who have discussed with the subcommittee their views on legislative remedies and administrative actions needed now to help put farming back on a profitable basis.

We welcome you to the subcommittee. We know you were meeting with the Cabinet Council, and were unable to be the leadoff witness. We appreciate your coming this afternoon to give the subcommittee the benefit of your statement, and your observations about the legislative proposals that we have pending here in the subcommittee, specifically the legislation introduced by Senator Huddleston and myself last Friday in the Senate and the other suggestions that are being made for consideration of the Congress and the administration.

We have a copy of your statement for which we thank you. You may proceed as you wish.

STATEMENT OF HON. JOHN BLOCK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY SEELY LODWICK, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS; WILLIAM G. LESHER, ASSISTANT SECRETARY FOR ECONOMICS; DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS; ALAN T. TRACY, DEPUTY UNDER SECRETARY; AND WILMER D. MIZELL, ASSISTANT SECRETARY FOR GOVERNMENTAL AFFAIRS

Secretary **Block**. Thank you very much, Mr. Chairman. I would apologize initially for not being here this morning when I hoped to be. I do feel that the time that has been spent in the interim has been well spent and very useful to all of us.

I have with me today the Under Secretary for International Affairs and Commodity Programs, Seely Lodwick, and on my left is Bill Lesher, Assistant Secretary for Economics, and Dawson Ahalt, Deputy Assistant Secretary for Economics; Deputy Under Secretary Alan Tracy on my right, and Mr. Mizell is on my far right.

Senator **Cochran**. You just about outnumber us.

Secretary **Block**. It may be necessary, Mr. Chairman. [Laughter.]

As I suggested in my opening remarks, I feel that the morning was well spent. I did present this concept to the Cabinet Council for Food and Agriculture, to the President, and the Vice President this morning. It was very well received. Then shortly thereafter, around noon, the President chose to make an announcement officially endorsing his position, and this unique approach to helping solve our agricultural problems.

With that I will go ahead and proceed with the testimony.

We all share a common interest in returning prosperity to our farmers. While the agricultural outlook is not bright, I believe that now is not the time to concede defeat. However, in dealing with the current situation, it is important that we recognize that the actions we take in the coming months will very likely shape the future of agriculture for several years to come. We cannot compromise the future of our farmers with shortsighted quick fixes.

I realize that it is only natural for each of us to point the finger of blame at someone else. The truth of the matter is that the factors affecting the farm economy are complex and, for the most part, beyond the direct control of anyone, including the Secretary of Agriculture.

As I have said more than once, I would have waved my magic wand long ago to help in finding some solutions to our problems. We must seek solutions in a bipartisan spirit if conditions are to be turned around in the farm economy.

Mr. Chairman, in my remarks today I am going to first review the developments which have shaped our current farm problem. I have a few slides which I would like to share with you on this subject. Then I am going to discuss three policies that the President has recently endorsed. They are an innovative program to reduce stocks and lay the groundwork for price and income strength in the future; a program to share our abundance with the needy overseas; and some changes in our farm programs to ensure we do not stimulate increased production.

Finally, Mr. Chairman, I would like to share a few of my thoughts on what the Government should and should not do to get agriculture moving again. In particular, I am concerned about certain provisions contained in S. 3074, the "Agricultural Act of 1982," which could be counterproductive in the long run.

As we work together in examining actions that might be taken to improve the situation for our farmers, I believe it is critical that we understand recent developments. Several factors have come together to cause the downward pressure on prices and incomes that farmers are now experiencing.

Now let us turn the lights down a little bit and look at the slides.[1]

If we could have a little less light in here, the utility prices will be down a little bit.

Today's farm problem is shown on the first slide.

The second one indicates large supplies plus weak demand has given us low prices.

Why are crop supplies so large?

They are large because of many factors. They came to us during the decade of the seventies easy credit, heavy capital investment, rising prices and price supports, booming farm exports, and acreage expansion.

EASY CREDIT

I don't mean it has been just easy and unnecessary. I mean that credit was not expensive during the decade of the seventies. There was a strong demand for commodities and farmers were there to expand their production plant to meet that growing demand and they had to borrow money to do it.

Capital investment was heavy during the seventies, as you can see from the chart. It tapered off a little bit since 1978 or 1979.

Prices and loan rates trended upward and that was fine, but our safety net in agriculture generally stayed below the season's average prices. It was not a problem for us then, but as you look at the rising loan rate, and unfortunately with declining prices they are, in fact, crossing right now.

Agricultural exports soared during the decade of the seventies, both in value and volume. This is indicative of the strong demand that we face in the world.

U.S. CROP ACREAGES EXPANDED

Total cropland went up dramatically. It went up about 60 million acres during these years, the decade of the seventies. That is also a 50-percent increase in crop acreage.

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[1] See p. 148 for the charts supplied by Secretary Block.

Technology boosted yield per acre. I can look at the chart and tell you why those bad years were bad. The year 1970 was a corn blight, and then there was a drought in 1974 and 1980.

Wet weather pushed crop output to new peaks, dramatically high production in 1981 and 1982, unprecedented in our history.

Now, all of a sudden, after all of the euphoria of the seventies that has put us in the mood to meet this huge demand—all of a sudden demand weakens. What has happened to us?

It is a global problem, widespread recession, rising value of the dollar, instability in Eastern Europe, Mexico and elsewhere, embargo-related losses, East-West political tensions and unfair trade practices.

This widespread recession has gripped the world. The industrialized countries with gross national product rates down to almost zero, and the LDC's also slumping with their growth rate.

The rising dollar makes U.S. foreign exports less attractive. I remember a few years ago when the big concern was because the dollar was so weak. Now it is so strong that it is creating problems for us. Look at the dashed line that represents prices to foreign buyers. At the end of 1982, that dashed line is up about 125 or 130 percent of the index. Yet, you know how low our farm prices are in the United States. But the price that importers pay remains high.

Look back in January of 1981, and importers were paying far less, even though our prices were better. The strength of the dollar has hurt our competitiveness in some cases.

Instability has reduced our foreign exports to countries like Mexico, and they are not alone. In 1982 the demand dropped dramatically. In 1983 the demand is going to be better, but it is going to have to be paid for by help from United States through guaranteed loans because of the economic situation in Mexico.

In Eastern Europe, that is a story unto itself. Their purchasing has been cut in half in 1982. It is not likely to be any better in 1983. So you can see, consequently, that a growing market for us, is now suffering such severe economic problems that I am not sure where it is going to lead.

We have seen charts on the embargo before—and I won't dwell on it—but I must say if you look at the far right-hand side, you can see the gap between the U.S. share of the market and the total market, which is the top line. Our share is certainly not anywhere near what it used to be. It used to be 70 percent and now it is maybe 30 or 35 percent, at the most.

Senator **Boschwitz**. What was that first dotted line? Was that when the first agreement came in?

Secretary **Block**. Yes. And we held our relative position very steady until the embargo. Unfortunately, really, that is when we shot downward. All of a sudden that is when their needs exploded upward. Obviously there was someone else in there to take advantage of the market and meet their needs.

The European Community subsidies have expanded the Europeans' exports. In 1976 EC exports were about $12 billion, and now they are selling over $25 billion abroad. Their subsidies have expanded accordingly, as you can see in the hatched line there on the right. It is now about $7 plus billion a year to subsidize the markets that the EC is penetrating.

The U.S. farmer, as you certainly can appreciate, is under severe stress from a series of problems. Weak world demand, reduced exports, soaring stocks, depressed farm prices, 3 years of poor farm income, drop in farmland prices, costly credit, and solvency problems.

WEAK WORLD DEMAND

The dashed line is a trendline. World demand has fallen below the trendline because of the series of problems that we talked about earlier.

These charts are worth looking at a little bit. The soaring grain stocks. They are what really plague us. We have lots of reasons why the stocks are huge. We have had good weather and a strong dollar and so on. Yet we see stocks keeping the prices down like a stormcloud over our head. The huge, enormous stocks of grain are holding prices down today. Stocks are a blessing in the eyes of many countries, but when you have too much and are running out of storage space and don't know what to do with it, it becomes a liability almost, at least when in the hands of the Government.

You can see coarse grain stocks at the left and how U.S. stocks have shot upward. World stocks accordingly went up, but the United States now holds over half the stocks of the grain in the world. That is just a huge burden for this country to carry for the world. On the right wheat is a similar story.

Farm exports in dollar terms have dropped off in the last 2 years in value. We have held our own in volume. I think that is almost miraculous, but certainly no exciting story. You see the dollar figures have dropped off.

Grain prices are depressed. You can see corn and wheat from this chart and you can see how these prices have dropped to the very low levels that we have faced in the last few months.

COTTON STOCKS

In 1982 there were terrible storms and damage in Oklahoma and Texas but we are still raising more cotton than the world can use. Prices are falling below the target price line there, and that is certainly a concern to all of us who are looking at the budget and looking at trying to keep farm programs as stable and sound as we can.

Three years in succession of poor farm income. It is probably most significant to look at the deflated line, which is the dashed line on the right. It shows you what that dollar will buy. It was not good in 1980, 1981, or 1982, and the prospects for 1983 are not really that exciting. As our outlook demonstrates, and that is why we are concerned about where we go from here.

Interest rates have risen, but of course they are now coming down. That is an encouraging sign, but they are still higher than they should be, and we have paid an enormous price in inputs to agriculture and paying interest on those loans.

Rising farm debt creates solvency problems for farmers as they have increased debt. The debt though as a ratio to assets in agriculture has gone from 16 to about 20 percent, in a couple of years. The alarming part is how fast it has gone up. Also there are some farmers that have a debt-asset ratio that is much worse than the average, and those are the ones that are in the biggest trouble.

This chart on land valves shows a couple of things. It shows that farmland values went up dramatically during the seventies, but that was a product of the euphoria and the anticipation of that decade, and probably was a little out of hand. I don't think anyone would argue that in a lot of ways. But now they are coming down, and this is alarming to us also, to see the break.

It certainly might not be healthy to see them go up at the rate they were going up in the past, but it is alarming to think they would come down very much. Land values represent the asset base from which farmers underwrite agricultural lending.

Now, finally, in terms of the U.S. Government, what does all this mean? It means that the way the farm programs are written and the way they function, it means that the cost of the farm program skyrocketed in 1982. And it probably could be worse in 1983, and in 1982 it was more than 2½ times what it was in 1981.

So this puts us in a position where we really must be looking for some solutions to the problems in agriculture of low prices. Yet a farm program in no way, under current circumstances, can buy prosperity to take us out of our current problems.

As can be plainly seen, the problems we face involve huge stocks, weak demand, and successive years of large production. Thus, the key to improved price and farm income prospects for future years is to take the necessary steps as soon as possible to get supplies more nearly into balance with demand. It is essential that in taking action that we not fall victim to the temptation of simply legislating near-term prosperity through higher price supports or other rigid nonmarket actions. Yielding to such temptation will only encourage farmers to produce more at a time when the market is strongly signaling the need for less.

To effectively deal with our current farm problems we must take actions along several fronts. I am going to discuss the proposals that the President has endorsed today. Basically his proposals fall into three categories: increased flexibility to implement a payments-in-kind program; authority to make international donations of CCC stocks to the needy countries; and the authority to maintain target prices at 1983 levels in subsequent years.

Among the many proposals that the Department has been considering is one calling for payments-in-kind to farmers who agree to reduce their production beyond what is called for in the 1983 programs for wheat, corn, sorghum, rice, and upland cotton. It has somehow become known as PIK. I wanted to call it STRAC, but somehow PIK seems to work better, so use either name you want to use, I guess. The basic idea of PIK is that farmers are offered an amount of commodity as payment for reducing additional acreage.

The PIK approach has several appealing and unique features:

First, production can be reduced beyond that expected under the 1983 programs for wheat, corn, sorghum, rice, and upland cotton, and thus bring supply back into closer balance with demand.

Second, stocks can be reduced at the same time that production is cut back, lessening the overhang on the market at harvest next year and enhancing the prospects for a market-led recovery in farm prices and incomes in future years.

Third, the availability of market supplies will be maintained, signaling to exporters and importers that the United States fully intends to remain a reliable and consistent supplier when production adjustments are made.

Fourth, Government outlays for domestic farm programs (e.g., loan volume, storage payments, deficiency payments) should decline. That last chart you just saw, loan volume, storage payments and so forth, could come down.

Fifth, the PIK program, unlike other emergency measures, is self-terminating when excessive stocks have been worked off. That is what fuels the growth.

Sixth, farmers would have the same or greater net returns while stocks are being reduced.

Seventh, sound conservation practices would be applied to a larger amount of acreage. Likely the land taken out would be the most fragile land. Farmers do that, as we know, and this land would be put under conservation practices.

Eighth, storage space problems would be lessened, and we are just about at the limit on storage in this country.

Now, I think you can appreciate why I am giving serious consideration to implementing such a program. The concept is sound, but the administration of such a program presents a challenge to the Department.

Basically, a PIK program would be composed of two complementary activities. First, there is the matter of encouraging farmers to participate in an additional acreage reduction program. In return for their participation, these farmers would be provided an amount of commodity as compensation for reducing acreage.

You understand, you won't have to give a bushel to get a bushel out, because the farmer won't have to plant the crop and fertilize it and so on and so forth. Many crops, like wheat, have done a lot of this, so it will take a larger amount to get the reduction.

With lower costs the producers could achieve the same or greater net returns by marketing fewer bushels. The actual value of the in-kind payment would depend on how and when a farmer chose to market the commodity received—just as it would on any commodity actually produced.

The second aspect of the PIK program involves the acquisition of sufficient stocks to make the necessary payments-in-kind. These stocks would most likely come from the farmer-owned reserve [FOR], with existing Commodity Credit Corporation [CCC] holdings and regular loan stocks utilized if necessary. Arrangements would be made to transfer ownership of the stocks through the PIK program. I would anticipate that in many cases the same farmers who hold FOR contracts would also participate in the PIK program, making the transfer of in-kind commodities fairly straightforward, realizing they already hold stocks.

Let me be more specific about some of these means, as we envision it, and I want to emphasize that these are only our thoughts at this time. We have an open mind, and we have tried by making this whole program and developing it with farm groups and with Members of Congress, hoping that with your help we can avoid any pitfalls that there may be, because we are charting some new waters here. There isn't anything set in stone at this time, and you can be helpful.

DURATION

We think that such a program should only be necessary for the 1983 and, perhaps, the 1984 crop years. It could be added to the programs that are otherwise announced for wheat, feed grains, rice and upland cotton, put this on top of it.

ELIGIBILITY

As already noted, a PIK program would be offered to supplement the announced programs for wheat, feed grains, rice, and upland cotton. To avoid the usual slippage which results when farmers place their less productive land in any type of reduced acreage program, we would propose to make participation in PIK conditional on participation in the regular program. This should ensure the effectiveness of the PIK program in reducing production.

Our current thinking is to pursue two options on the PIK program. As the first option we would offer producers a replacement rate expressed as a percent of the program yield and allow farmers to withdraw an additional 10 to 30 percent of their base acreage.

Start with the acreage reduction program. The farmer must participate in it. If he wants to do more, he can put in additional acreage up to 50 percent. This additional amount, from 20 up to 50, except for cotton—and that is from 25 up to 50—that additional amount will be the PIK part. That is the part he will get a payment-in-kind for. This would provide for up to 50 percent of the basic acreages of wheat, corn, sorghum, rice, and cotton farms to be withheld from production.

The actual acreage withdrawn under the PIK would be an individual farmer's decision. In one county we could still end up with 50 percent of the acres out. So you would only get half of the acreage out in any one county. Certainly no county or very few counties would go 100 percent with the program.

We are also considering a second option, the possibility of allowing an entire base acreage for a commodity to be withheld from production. This would be particularly relevant in counties where acreages withdrawn under the 10- to 30-percent PIK were relatively small, and if such a whole-base PIK were established, we would most likely operate on a bid basis. Farmers would tell us how many bushels per acre of an in-kind commodity would be required to get them to participate. If sufficient acreage was not obtained through the 10- to 30-percent offer, and that is the first offer on top of the regular acreage reduction program, we would go to that county and look at the bids, and we will take the best bids and take enough more acres out to get the reduction we want in that county, but not exceed probably 50 percent.

We would set some kind of level. We don't want to close down agriculture in any county. We have got to keep enough activity in that county.

Acreage withdrawn under a PIK program would have to be devoted to conservation uses. Some producers will already have planted their crops by the time a PIK program could be announced. It is anticipating that haying and grazing would be permitted on such acreage involved. It is likely summer fallow rules would apply. Any land entered into the PIK program as part of a fallow rotation must not have been cropped in the previous years during summer fallow. It must not have been cropped in the previous year. Finally, cross and offsetting compliance would probably not be required.

Compensation is always important if we are going to get participation. As already noted, farmers would receive an amount of commodity in return for additional acreage idled under a PIK program. The amount of commodity to be received per acre idled would be computed according to a uniform percent rate multiplied times the farm program yield.

The offer rates would be established as an incentive to encourage participation. Thus, for example, a corn farmer with a farm program yield of 100 bushels per acre would need to evaluate his costs of production on the acre and his expected return on 100 bushels. If he feels that the quantity offered per acre based on a percent of his program yield will provide him with the same or greater net returns when he sells it, he will idle his acreage.

Let me stress that at this point that these rates have not been firmly established and are subject to change. Our analysts are trying to figure out the appropriate rate to get the kind of participation we want. Any amount less than 100 percent would ensure that less grain would be placed in the market through the program than would otherwise have been produced. We understand that we are not going to be giving 100 percent of the grain. If a farmer takes 1,000 bushels of production out, we are not going to give him 1,000 bushels. We might give him 750 or whatever we can figure out that is necessary to get him to cut that production. That means in the end result there won't be more grain on the market than there would have been. There will be less.

Each PIK participant would receive a certificate of entitlement for the calculated amount of commodity. This certificate would effectively transfer ownership of the calculated amount of wheat, feed grains, rice, or cotton to the participating farm, so he has a certificate and has ownership of that commodity.

REDEMPTION OF CERTIFICATES

We all want to get paid. The certificates would be issued effective sometime after the first day of the marketing year for the commodity in question. In the case of corn, for instance, this would be October 1, 1983; for wheat it would be June 1, 1983; and for rice and cotton it would be August 1, 1983. At that point ownership of the commodity would be transferred to the farmer.

He takes ownership at about harvesttime so the commodity doesn't come on the market early and disrupt the market. It comes on about harvesttime, when he would be getting it anyway when he was harvesting his crop.

The commodity would be owned by the farmer who would be responsible for any marketing decisions and for accrued storage charges. He has a certificate. He is responsible for it. He can sell it when he wants to, and he pays storage charges.

The physical transfer of the in-kind commodity to the PIK participant would, of course, be affected by locations. Physical transfer would make greatest sense in those cases where FOR or CCC stocks are available locally. The easiest situation to deal with would be where a farmer currently holds a FOR contract and chooses to take his own grain as payment for participation in the PIK program. Beyond this, some reasonable definition of a local area will be developed to carry out physical transfers of PIK commodities.

In those cases where insufficient CCC or FOR stocks are available locally to meet the needs of the PIK program, the CCC would have to offer the farmer other options. For example, a farmer could assume ownership of his commodity at the location where it is stored. It would then be up to the farmer to arrange for the sale or further storage of his commodity. Alternatively, the CCC could agree to sell the PIK participant's in-kind commodity, the dollar value received by the participant being that which prevailed in the local area of the participant at the time of the sale. Other options are certainly available.

The easier situation to set up involves farmers already in the reserve or those who have a CCC loan. They can take ownership of their own grain, so it is already with them. They can feed it to the hogs or sell it. If it is a local elevator there is no problem for them.

The other and more difficult situation is where there isn't enough grain in a given community to satisfy the participants of the program. In those cases we are proposing to give the farmer a certificate.

He can't go and say, "Well, sell my corn at the elevator." It is not there. So what we do is, we will have a pool of grain, as we already do, for example, in the farmer-owned reserve elsewhere or in CCC ownership. He will go to the local CCC office or local elevator and say, "I have decided today to sell my grain" or ". . . half my grain." The elevator operator will contact an elevator with grain and they will sell the amount of grain for him that day, right away, and he will be paid.

Now, the question is, you are going to say, "How much do I pay? What is the market?" The market he will be getting is his local market and it will be posted at the AFC office there.

Now, grain will have to be sold someplace but it won't be locally because there isn't sufficient grain available locally. Grain will be sold somewhere in the United States, and if there is a differential, CCC will have to make up the difference.

Whether we win or lose on it, I don't know, but grain will be sold someplace. Sales should occur across the country so that markets won't be disrupted at any place, because this is obviously not a good idea. We think if we have grain scattered enough across the United States that the program will work.

As you know, the idea of a PIK program has been floated before a variety of farm groups, Members of Congress and others. The reception has been extremely positive. I am thus convinced that the time is right for this innovative approach to bringing supply into balance with demand and stocks back under control.

I know, and other farmers know, that we will not re [illegible] prosperity through the marketplace until stock levels are [illegible]ed. These stocks hang over the market like the dark cl[illegible] summer thunderstorm. In assessing the implications of PIK we must be clear about its purpose—it is a means of working off stocks while also reducing production and building a base for a future economic recovery in agriculture.

It is urgent that we move ahead with the PIK program. Some farmers have already planted crops for next year. Others will be planting soon. If we decide to use this approach, I would very much like to make an announcement on PIK as soon as possible.

The PIK program that I have described to you can largely, if not totally, be carried out under existing authorities available to the Department. There are two areas, however, where legislative assistance would be helpful and clarify matters. As you know, the CCC is required under provisions of the 1981 Farm Act to not resell any of its stocks for less than 110 percent of the current farmer-owned reserve trigger prices. While there may be ways for us to deal with this problem, it would be most efficiently handled through a legislative exemption covering stocks distributed under a PIK program.

A second problem concerns the payment limitation provisions of the 1981 Farm Act. This would limit participation by many farmers who would otherwise be willing to put 10 to 30 percent, or perhaps their entire base, under the PIK program. While in-kind payments may not be subject to this limitation under current law, a legal clarification would be helpful.

INTERNATIONAL DONATION OF CCC COMMODITIES

The United States has been blessed with the ability to produce agricultural products beyond its own needs. With so many hungry people in the world it seems only reasonable—in fact, responsible—that some of this bounty be shared.

We will need Congress to give us the authority to distribute surplus CCC grain stocks to the needy in other parts of the world. Authority should be granted under section 416 of the Agricultural Act of 1949, as amended, to distribute stocks of wheat, feed grains, rice, and other commodities. It should be extended to allow distribution of other commodities. Such authority was recently provided for surplus CCC dairy products. It should be extended to allow distribution of other commodities through public and nonprofit private humanitarian organizations.

To assist in such donations the CCC should be authorized to pay for any necessary repackaging, transportation, handling, and related charges. These donations would be in addition to Public Law 480 and other forms of U.S. aid already in place. Also, if the program is implemented, the commodities would be targeted in a way that does not compete with commercial sales abroad.

MAINTAIN 1983 TARGET PRICES

The 1981 Farm Act mandates that the target prices for wheat, feed grains, rice, and cotton be increased each year over the life of the act. While these increases may have seemed fairly reasonable in the context of the rapid inflation of 1980–81, we have seen dramatic improvement in reducing the rate of inflation. The mandated increases in the target prices now provide incentive for production increases at a time when moderation is needed. Production costs only went up 3 percent in 1982, and they may not go up at all in 1983. We must make sure that after stocks are reduced significantly we do not have price supports and target prices that would get us back into the same situation we are in today.

Thus, the Secretary of Agriculture needs the authority to determine the appropriate target level, but not lower than 1983 levels. They are also set for 1983, you understand. We are not proposing to do a thing there, but for 1984 we should have authority to hold them where they look appropriate.

GOVERNMENT'S ROLE IN AGRICULTURE

We are now at a crossroads for the American farmer. Current slow economic growth in the United States and the rest of the world and instability in export markets have combined to create difficult times. However there are some effective things that Government can do to help farmers help themselves.

With that in mind, I would like to comment on S. 3074, recently introduced by members of this subcommittee to help the farmers' dilemma, and then proceed on to some of my own thoughts on what role Government ought to play in assisting farmers through these difficult times.

S. 3074 consists of essentially three parts: Mandatory acreage reduction for the 1984 crops of wheat, feed grains, upland cotton, and rice, combined with higher minimum loan levels starting with the 1983 crop; authority for a PIK program; and authority to use commodities acquired by CCC, through its price support operations, to increase agricultural exports.

I believe it is premature to begin establishing mandatory acreage control programs for the 1984 crop before the 1983 crop is planted. Many highly variable factors affect agricultural production. Although the United States experienced record harvests the past 2 years, who really knows how long this will continue? In addition, incentives to participate in the 1983 commodity programs are much more attractive than for the 1982 programs. Legislating rigid acreage control programs so far in advance seems certain to invite trouble. We have only to look at the dairy program laid out in the 1977 Farm Act for guidance on how rigid programs can get you in trouble over time. Moreover, such provisions signal to the rest of the world that we are more than willing to be the shock absorber for the world—so why shouldn't they produce more?

Increased minimum loan rates are totally inappropriate at this time. They would quickly price our commodities out of the world market, a lesson we should have learned in the fifties. Moreover, it must be remembered that while the United States has attempted to reduce its production, other exporters have actively increased their acreages—a situation that would surely be encouraged if loan levels were increased. Increasing loan rates would also lead to reduced exports, at a time when we are desperately trying to increase them. Clearly, any increase in loan rates must be strongly resisted.

Provisions of S. 3074 allowing the establishment of PIK for use as an incentive to reduce production are obviously in keeping with my proposal. As I have noted, not only does such a program reduce production, but it also reduces current stocks that overhang the market so badly. However, the PIK provisions in S. 3074 are too rigid and hold the potential of undermining the administration of a PIK program. Establishment of a PIK base and the insistance that PIK commodities be physically located in the same county as the participating farm are far too rigid to be accepted by farmers.

Requiring a PIK base unnecessarily complicates the program, making it more difficult for farmers to understand. The location requirement assumes CCC stocks are evenly distributed throughout producing regions and that producers would prefer PIK grain located near the farm rather than at the point of sale or export locations.

S. 3074 obviously is motivated by the pressing need that we all feel to help farmers, and I commend the authors for getting some of the issues out on the table. However, there are some things the Federal Government should do and many that the Federal Government should not.

The farmers' No. 1 market is the domestic commercial market. The condition of that market depends to a great deal on the strength of the economy. Thus, the first priority of Government is to help build and maintain a vibrant, strong, sound, and expanding job-making economy.

We have made a good start in the past 22 months. The 1980 inflation rate of 13½ percent has been cut to about 5 percent. The prime interest rate of 20 percent or more in 1980 had been cut to below 12 percent. In September, the prices that farmers paid for all commodities—including services, interest, taxes, and wage rates—were 3.3 percent higher than a year earlier, compared with a 12-percent increase during 1980.

The Government has a role in helping farmers make temporary economic adjustments during difficult times. We can help farmers adjust production. We are offering farmers loans on their crops to help carry them over harvest gluts and periods of unusual production. We will have provided a record $12 billion in financial assistance to farmers in fiscal 1982; $6 billion of that in the form of commodity-secured loans. However, there is a limit.

We can help farmers insure against natural risks with an aggessive corp insurance program. We have such a program in place and continue to make improvements. In addition, we can do more to emphasize research on new uses for farmer products.

Farmers' No. 2 market is the export market. The rules of international trading are set by governments. So our Government has a responsibility to help American farmers capitalize on their efficiency by working to keep international agricultural markets competitive; to reduce or eliminate trade restrictions; and to counteract subsidized farm exports where American farmers must compete against foreign treasuries.

Where our Government is not successful in freeing up trade, removing obstacles, or reducing foreign export subsidies, we need to be strong and ever vigilant. I favor using a greater share of our available public funds in aggressive programs to expand exports. Recently, I announced a 3-year $1.5 billion "blended credit" program to expand agricultural exports through lower interest rates on those exports. And we are analyzing other programs to increase exports. But just exporting more will not rid ourselves of the current problem. Our stocks are too large. We must attempt every way to sell more.

I don't think the American public wants the Government to sit by while our farm exports suffer. Every American has a stake in farm exports, since those exports create a favorable balance of trade that compensates for our deficits in industrial trade. In addition, every $1 billion in agricultural trades creates an additional $1 billion in U.S. economic activity. And that means jobs—35,000 jobs for each additional $1 billion in exports.

Finally, we must retain our credibility as a reliable supplier. That reputation has been tarnished only by our Government, not by farmers and their ability to produce. This administration has a strong policy to support farm exports. That policy will be maintained.

I urge you to join me in tackling the economic problem facing farmers today. We can get the job done, but only if we work together. The challenge is before us, we must meet it together for our farmers and the agricultural economy. Agriculture is the Nation's greatest strength. Prosperity must be restored.

Finally, I would say I have made a strong effort to attack this problem on a bipartisan basis. I met with farm organizations and I met on the Senate and House sides, both in a bipartisan fashion, to talk about it, because I think the problems we face are too serious for us to play politics with, and I am sure that is your attitude also.

We have an open mind in the Department of Agriculture. If someone has a better idea, please bring it forward. If you think there are some changes we should be making in our suggestion, bring those forward.

We have an open mind to that. Frankly, I think it is the only game in town where we can use a liability and turn it into an asset, and turn agriculture around eventually, and at the same time not be costing the Federal Government more money.

Thank you, Mr. Chairman, for your time. I appreciate your interest.

Senator COCHRAN. Thank you, Mr. Secretary. We appreciate your statement and your presenting it to the committee this afternoon.

I have several questions, but in view of the fact we have members here who have other commitments elsewhere on the Hill and here in the Senate today, I think I will wait until those questions have been asked before I proceed personally with my questions.

Senator Helms.

The CHAIRMAN. I have a letter here from several farm organizations which recommends that Congress withhold action on the proposed PIK program until 1983. Have you seen this letter?

Secretary BLOCK. No, sir, I have not. I heard there was a letter.

The CHAIRMAN. What is your reaction to it?

Secretary BLOCK. First of all, I think it would be a mistake for agriculture—the longer we wait, the less likely it is going to be that we can get heavy participation, and, after all, what we want is participation.

Furthermore, farmers will be plowing in Southern States almost before you know it, certainly before the Congress is reorganized and back in action next year. You know, the further we go, the more difficult it is going to be to get participation. Farmers like to know ahead of time what the game plan is. I just think it would be a mistake to wait, Mr. Chairman.

The **Chairman**. What would the effect be on market prices and Government outlays and movement of commodities if there were no PIK program?

Secretary **Block**. I think I would ask Assistant Secretary for Economics Bill Lesher to comment on that.

Mr. **Lesher**. We really think, quite honestly, that until we work off the size of stocks we have right now, prices are not going to recover very much at all. When you talk about the United States carrying over 50 percent of the world's grain stock, over 150 metric tons of grain which is more than we export in 1 year, we think the stocks have to come down before you are going to get any price recovery.

We think even if a large PIK program is announced and operated for the 1983 crop, that there may not be that much significant increase in prices, perhaps 5 percent, something of a modest nature.

What we do feel is that it will set an environment for later on for farmers to have a chance. Farmers know about this great mountain of grain hanging over their heads, and until we can get it down, the price is just not going to come up much at all.

In 1984 and 1985, and beyond, if you can get these stocks down, sure, I think prices are going to be much higher than they would have been otherwise. You cannot carry out 2 billion bushels of corn in the farmer-owned reserve and have price strength. It just isn't going to happen.

As far as cost to the Government, I think it can save the Government some money probably in 1983. I think it would be more significant in 1984-85. We are pretty much committed to certain costs in fiscal year 1983. Perhaps from fiscal year 1983 to the fiscal year 1985 time period you may save as much as $3 to $5 billion in costs.

A lot of that, Mr. Chairman, would come from savings on paying storage and paying interest on a huge pile of grain right now. That is a significant cost to the Federal Government.

And also in 1984-85 when you get the stocks down, you are going to get higher prices. Higher prices mean less loan activity and less deficiency payments.

The one thing that economists are not very good at is at issue here. That is, what does the mountain of grain really do to prices?

We know it has an impact. I believe it has a significant impact, but it is awfully hard to quantify. We can give you directions. You are going to save the Government money, perhaps as much as $5 billion from fiscal year 1983 to 1985. You are going to have perhaps modest price strength in 1983, maybe a 5-percent increase in average terms, and in 1984-85 you will have an environment to get much larger increases.

The **Chairman**. I guess the Secretary pretty well summed it up. This is about the only game in town.

I join you, sir, in asking anybody who has a better idea to let me know as well.

I was reading something the other night that added to my feeling that the world today is just one series of anomalies after another.

This showed that more than half of the people ever born in this world since the beginning of time are alive today.

We read about hunger and a huge population, yet we are worried about overproduction and the impact that it is having. It seems ironic to me, but I will set that aside and talk as a North Carolinian.

North Carolina produces a lot of corn, Mr. Secretary, but all of it, plus the corn we buy from other States, all of it is fed to our pork and poultry industries.

How would the PIK program work for grain farmers and feeders in grain-deficit States such as mine?

Secretary Block. Well, certainly, I would expect there would be some participation in your State, as I would like to see somewhat—not absolute, but somewhat—uniform participation across the country.

The objective is not to—we want to avoid taking too much land out in any one State or county, because it would be disruptive to the local economy.

I would say that there will be some taken out there, and probably I would expect it to be somewhat similar to many other States. It would mostly be speculation, but I think that is the way it would be.

Prices in your State, because of the large demand for livestock, will, I think, run higher than in some other States. So in Tennessee the people might be more apt to want to raise it than they would be otherwise, but yet they will get the payment at the local price.

So I think it will kind of balance out.

Does anybody have any different idea on that?

Mr. Lesher. No. I think you probably may have some participation. But you would not necessarily run out of corn for your feeders because the flow of grain would still go among States just like it always has.

The base price, the national price, would probably be higher, so, in fact, corn prices in North Carolina may move up just as they would in other States.

The Chairman. Well, we will see.

Mr. Lesher. We will see.

Secretary Block. There are some unknowns.

Senator Cochran. I will recognize Senator Dixon, who has a commitment somewhere else now.

Senator Dixon. Thank you, Mr. Chairman, and I ask the committee to forgive me for imposing on their time, and the Secretary for our mutual friend, the Governor of Illinois, is in my office right now. I have to meet with him.

Mr. Chairman and members of the committee, I would, first, like to compliment the Secretary on a bright and innovative, new idea. There are not that many of those round here, I have observed in my time here.

It addresses the problem of the surplus that we have facing us in this country, and while I certainly have some reservations, as I am sure all members of this committee do, I want to hear all the evidence and ask all the questions necessary before I come to my conclusion. I certainly want to congratulate my friend for his excellent presentation to this committee and, Mr. Chairman, I will be back shortly, but before I leave, I wanted to indicate to the Secretary that upon my return I will ask some questions. I think his thoughtful idea is very valuable to this committee, to agriculture, and to America.

Senator COCHRAN. Thank you, Senator.

Secretary BLOCK. Give my best to the Governor, please.

Senator COCHRAN. Senator Huddleston?

Senator HUDDLESTON. Thank you, Mr. Chairman.

Mr. Secretary, I am very pleased that you made it up today and that you have expounded somewhat further on the idea that you had exposed some weeks ago to some members of the Agriculture Committee and others relating to the payment-in-kind program and the other comments you have made.

I would just echo from this side of the table what you said during your presentation, that we do need a bipartisan effort to resolve the problems that we are confronted with. I can assure you that those of us over here are interested in the best possible plan, implemented as aggressively and as rapidly as possible to meet some very serious problems that we see out there on the farms of America. We will certainly join with every effort that we think it is possible to do that will lead in that direction.

We may have additional ideas of our own, and we may disagree in some respects with some of those that have been advanced by you, but in the final analysis I think we will find that we will support any reasonable effort to improve the farm situation as it exists at the present time.

There has been a great deal of interest suggested in this program. We have had a number of questions today about them. I am wondering, first of all, if you have any comparative cost figures as far as to the Government in the program, as you have outlined, and the program that is already in place as far as crop diversion and other support programs.

Secretary BLOCK. You are comparing the current program, the acreage reduction, with the PIK program?

Senator HUDDLESTON. Right.

Secretary BLOCK. Well, it is entirely different, because in one case we are spending outlays out of the Treasury and in the other case we are using commodities.

Senator HUDDLESTON. Which is an asset as well.

Secretary BLOCK. Yes. It is either a liability or an asset. It is an asset, but it is not a very desirable asset to keep it from deteriorating.

Senator HUDDLESTON. Do you have any figure about how much less there would be, how much less money would have to be appropriated?

Mr. LESHER. As we found out during the 1981 farm bill, Senator Huddleston, how difficult it is to estimate costs either one way or the other. The figure I mentioned is a very gross one, the $5 billion over 3 fiscal years, and the benchmark was that if we continued to operate the program, the same acreage reduction programs and the same diversion programs that we have in place with the 1983 crop over the next 3 years versus adding on an additional PIK program. This is very gross, but we think you may be able to save up to $5 billion over those 3 years.

Senator **Huddleston**. What is the experience with the 1983 diversion program sign up for the farmer-owned reserve, the advance payment program? How many are signed up?

Secretary **Block**. We do not have the details. We could try to make that available.

Mr. **Lesher**. We have November 24, a press release, that goes through State by State, commodity by commodity, and the percentages of those signed up for 1982, and we can provide information to you on the early signup for 1983.

In general terms, Senator, the signup has been quite healthy in the program, and we can get you that. Would you like for us to provide that to the committee?

Senator **Huddleston**. Yes.

Mr. **Lesher**. Fine.

Senator **Huddleston**. I was pleased you did not propose an actual reduction in the target prices. What are your anticipations as far as loan rates are concerned?

I know you oppose the loan rate provision that is in the bill, S. 3074.

Secretary **Block**. As I look at the loan rates now, I would not propose to change it. I don't personally feel that the loans are creating as much of a problem. The loan to me, as always, served as a safety net and a means of providing for borrowing money and getting farmers some collateral to operate with.

Senator **Huddleston**. Does it not also have a tendency to improve the market price?

Secretary **Block**. It can improve the market price, but we do not want it to improve it with higher loan rates. We want the market to be above the loan. That is what concerns me.

Right now we have market prices down floating with the loans. We need the market prices to float above the loans. I will feel much more comfortable once we get there, and I am sure you will, too.

Senator **Huddleston**. I am trying to get the ox out of the ditch right now.

Secretary **Block**. I am, too.

Mr. **Lesher**. When you talk about the loan rates, it can have a double effect, both negative, concerning the ability for us to export our products. On the one hand you signal to the rest of the world that, in fact, you are willing to be sort of a shock absorber of the world, providing stability around the world. So our competitors will say, "Hey, let's go and increase production." At the same time if loan rates are set too high you hold prices for the market too high, you have got to sell to a market, and, in fact, if loans are too high you may hurt your exports. If you moved that loan rate up to levels that would interfere with exports and perhaps if you got them awfully high, more land would move into production.

Senator **Huddleston**. What about exports? You do have some provisions there. You have enacted a blended export credit program over 3 years.

Secretary **Block**. Yes, sir.

Senator **Huddleston**. Under the authority given under the reconciliation bill, what is your position about fully implementing and financing the revolving export credit fund?

Secretary BLOCK. Senator, my observation is that we have available funding. We can move a lot more product through volume and tonnage and dollar volume through the blended credit-type program.

With $100 million we can almost move $300 million worth of product, and we think there is mostly additionality. We are very encouraged with this program, and it would be my opinion that we could use more money in the blended credit-type program.

I am not really against the revolving-type credit fund, but, frankly, if you have so much in it that you use it, and it is gone, but this blended program—we multiply the use of it because we take the direct credit and tie it in with guaranteed credits.

Senator HUDDLESTON. You already see a relationship between increased sales and increased utilization?

Secretary BLOCK. Yes, sir. Go ahead.

Mr. LODWICK. Already there has been $88 million committed out of the $100 million.

Senator HUDDLESTON. You will need more money then, will you not?

Mr. LODWICK. We committed $100 million right away. It has gone along and we haven't used it altogether, but it is very popular.

Secretary BLOCK. We could use some of the other $75 million, too.

Mr. LODWICK. In talking in Algeria yesterday with the man who has to do with purchasing commodities, he indicated one of the things they look at closely is the financing terms. He also indicated the matter of subsidy was a very, very common practice among the nations that are supplying Algeria the commodities today, particularly as it relates to financing.

Senator HUDDLESTON. I think the Appropriations Committee is probably right now considering whether to give you some additional funding. It sounds like it is working well. I hope you accept it and use it aggressively.

Questions were asked this morning by various people, one on the payment-in-kind certificates. Can that, again, be placed under loans?

Secretary BLOCK. No, sir. Once you take the grain, you cannot put it back under loan.

Senator HUDDLESTON. Would you specifically prohibit that in a plan of this kind?

Secretary BLOCK. Yes.

Senator HUDDLESTON. We are, of course, creating a marketable instrument again in certificates. We also create throughout the country various brokerage offices dealing with those things, whether it is the ASCS office or whatever. What is the person going to do with his certificate if he wants to sell it?

Secretary BLOCK. Certainly it could be merchantable, and could be used as collateral and he could get a loan at the bank. That is no different than a farmer who has a bin full of grain. That is collateral to get a loan from a bank.

He could prepare an instrument that he could sell to someone else and they would have the ownership of that bin full of corn or rice or wheat.

Senator HUDDLESTON. Then as soon as the person gets the certificate, he is responsible for the storage costs and the transportation costs?

Secretary BLOCK. Yes, sir.

Senator HUDDLESTON. Is it your——

Mr. TRACY. Not as soon as he gets his certificate, sir, but as soon as the certificate is redeemed.

Senator HUDDLESTON. Is there a specified period of time he can redeem it?

Mr. TRACY. During the marketing year. For corn, he could not redeem it before October 1983. We put it off a bit so as not to conflict with harvesting at that time. He could be eligible for storage just as if he had grown the grain.

He would not have to pay storage until he harvested it out of the field, and in this case he would be responsible for storage until he cashed in the certificate.

Senator HUDDLESTON. I will yield because I have taken up too much time. There are a lot of questions connected with this, but I yield.[1]

Senator COCHRAN. Senator Boschwitz?

Senator BOSCHWITZ. What did you mean "cash in the certificate"?

Secretary BLOCK. He sells the grain.

Mr. TRACY. Redeems the certificate, I should have said, which would normally mean for grain.

Senator BOSCHWITZ. Mr. Secretary, as I looked at your charts, it seems to me that the United States holds over 60 percent of the world's grain.

Secretary BLOCK. I think I said 50. It has grown in the last 15 or 30 days.

Senator BOSCHWITZ. By the time you get to Europe, maybe you can talk to our friends, so-called friends in Europe, and say that we hold over 60 percent of the world's grain that is presently being held in storage. [Laughter.]

Mr. Secretary, I wonder if you would look at this booklet that you have given out, the last chart in it.

Secretary BLOCK. I almost know it by heart.

Senator BOSCHWITZ. That demonstrates the skyrocketing outlays for price support activities. It shows that in 1982 the cost of price support activities was $12 billion. Would half of that be in loans which will be paid back?

Secretary BLOCK. That is true. Half of it is in loans to be paid back.

Senator BOSCHWITZ. Under this program some of the loans might not be paid back?

Secretary BLOCK. Right.

Senator BOSCHWITZ. Could the same be said of all the years?

Secretary BLOCK. Over all the years, some of it, about half of it, or I don't know percentage, has been paid back.

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[1] See p. 188 for written questions from Senator Huddleston and the Department's answers thereto.

Senator **Boschwitz**. I ended up over the 13 years with a transitional quarter, all the figures, and the total cost comes to $52 billion. That is the cost of the farm program, including loans.

I am not sure that that cost can be reduced by 50 percent by saying that half of it was loans, but in that event, over 13 years, the cost of the farm program was $26 billion, or $2 billion a year.

I hope you will point out that figure to our friends in Europe, because, as I understand their program, it is approximately $37 to $40 billion a year, and that is more in 1 year than it costs us in the last 13. Theirs cost 50 percent more in 1 year than it cost us in the preceding 13 years. That probably is not a substantial part of the problem.

Incidentally, Senator Dixon and I are introducing a resolution today which we hope we can get through quickly enough to get passed, and I am sure it will be unanimously supported by the Senate, so that we can give you some additional ammunition when you talk to our folks over there in Europe.

As I go through your testimony, Mr. Secretary, Senator Huddleston was interested to know what happens on the 1st of October?

At that point it comes to the farmer and he has to start paying storage? Is there any way that there can be a continuation of the loan so that there won't be a deposit on the market at that point?

The second part of that question is, could a farmer actually trade in this as a future until he gains actual possession?

Secretary **Block**. It has to be the first question.

The objective is just like a farmer harvesting his crop. In October he harvests it, so he has it. Some of these farmers are going to already have the grain in their bin.

Senator **Boschwitz**. Your feeling is since the harvest will be reduced, the total amount of grain that comes to the marketplace at that moment would not increase?

Secretary **Block**. I would predict it does not increase the tonnage.

If you look at this fall, we had a huge crop, and farmers were holding grain in a tight-fisted manner. They did it because they didn't like the prices and they found a place to put it. Only 25 percent of the corn producers were in the program, and 48 percent in the wheat program.

They have held their grain tightly. I am not concerned about this grain coming on the market in heavy volume at harvest. It will only come on, if the price is attractive and the farmers want to sell.

You will not have a shortage of storage that forces grain on the market. I think it will work in our favor and the farmer will be the one who decides when he wants to sell the grain.

Senator **Boschwitz**. At the top of page 7, you say as a first option you would offer the producers a replacement rate, and so forth.

A little later on, on the same page, you say, "We are considering as a second option the possibility of an allowable base acreage of commodities to be withheld from production."

As I recall, in my conversations with you and others in the Department, I thought that the entire farm would be also put into the bidding process. I am a little confused by your language here; is it a bid, an offer, or what?

Secretary **Block**. Even I had a hard time reading it, Senator, but what it is saying is that in the first part of the program, naturally you have the acreage reduction program of 20 percent. On top of that, you can add an additional 10 to 30 percent, which gets you up to 50 percent, for example, on your corn base.

Senator **Boschwitz**. It could get to that.

Secretary **Block**. It could, but you don't have to go from 20 to 50 percent. You can go from 20 to 30 to 40 to 50 percent. It gives the farmer some flexibility in this regard.

Senator **Boschwitz**. I have some concern about that. The farmer has to be imaginative about finding land to set aside or divert, and that is why with the idea of a whole farm appealed to me.

Secretary **Block**. Sir, we are going to make that option available, too.

Senator **Boschwitz**. Will that be a third option, a preferred option?

Secretary **Block**. On a bid basis.

Senator **Boschwitz**. Will it be a preferred bid?

Secretary **Block**. I am not sure I know what you mean.

Senator **Boschwitz**. A guy comes in with a farm rather than 10 or 20 percent?

Secretary **Block**. As we now view the plan, it would not be the preferred option. The first option is to see how much acreage would come out of the county with a 50-percent program. Then we would look at bids on whole bases and sort them out in order to take the best ones until we get as much acreage out as we believe is needed on a national basis.

Senator **Cochran**. We will resume at this point.

Secretary **Block**. Senator, I appreciate your concern. We expect the already announced program to satisfy the first 20 percent. After we get the first 20 percent out, farmers would be starting to take pretty good land out. We will have already gotten out the hillsides.

Mr. **Tracy**. Even in Minnesota.

Senator **Boschwitz**. In any case, I think that has to be considered.

The last line on the second paragraph on page 7. The lowest bid for the whole basis would be accepted first.

I am not quite sure I understand that, but it would seem to me that taking out the entire crop base and not letting the farmer substitute it would be the strongest way of reducing surpluses.

Secretary **Block**. I understand what you are saying. What we are suggesting, although we are still waiting to hear from a lot of people on it, is that we go up to the 50 percent in a county and then we would look at whole farm bids.

Senator **Boschwitz**. Fifty percent of the whole county?

Mr. **Lesher**. Let's say, Senator, if you offered the program and every farmer participated at the additional 30 percent, you in fact are taking up to 50 percent of land in that county out of production. That is of the base. The concern is if you go beyond that, what you are going to do to the local machinery and fertilizer dealer, and so forth. That would be small, the number of counties where every farmer would go up to that maximum.

What we are proposing then, is, a second option. In those counties which are nowhere near 50 percent of the base for the commodities you are offering in the program, you may in fact go back and give the farmer the option to go 100 percent of his base. If in fact you don't have the county up to 50 percent, you could have that flexibility and go ahead and offer producers the opportunity to bid the whole base on their farm. You have to provide some protection, though.

Senator **Boschwitz**. I understand.

Secretary **Block**. I was saying whole farms. I was saying whole base. If you take the whole base of corn out, that doesn't mean you won't raise wheat and soybeans, but that means your corn base is out.

Senator **Boschwitz**. In the next paragraph you say that it is anticipated that haying and grazing would be permitted. Is that to some degree not self-defeating?

Secretary **Block**. To some degree it is, but the precedent was set this past year. We did allow it on land that was already seeded down, and I don't know——

Mr. **Lesher**. Let's take winter wheat which is already seeded. We would like to get some of those people to participate. For winter wheat you may have to have a little higher offer. In addition, you may want an offer that they could at least get something out of the ground that they have already seeded. One obvious option is to allow them to go ahead and hay and graze. They have already done the thing, you know.

Senator **Boschwitz**. I understand the consideration with respect to winter wheat.

Is there some way that a farmer who gets into this and makes a bid or accepts an offer, or whatever the proper term should be, would thereby on the date of having done that have a futures contract that could be sold after the 1st of October?

Mr. **Lesher**. He could. He goes to the local ASCS office. First of all, for the 10 to 30 percent we will be responding to an offer, no bid. He signs up, let's say, at 75 percent. He signs up. Let's say we offer 75 percent of his base yield, which might be 100 bushels an acre. He thus has 75 bushels per acre. He gets a certificate for 75 bushels per acre times how many acres he is putting into the program. That would be backed by the Federal Government. That certificate has value and he could do anything he wanted to with it as far as hedging on the futures market.

Secretary **Block**. He could go to his elevator and contract with that amount of grain, because he knows he will receive it, and knows the date he will receive it. He can say, "I will take delivery of that grain on such and such a date."

Senator **Boschwitz**. So it would have considerable flexibility?

Secretary **Block**. Yes.

Senator **Boschwitz**. On page 12, your testimony reads, "This authority for holding or freezing the target price shall apply to the 1985 crop year."

When you testified, you didn't read it that way. You said, "This authority should apply thereafter."

Secretary BLOCK. The point is that 1983 would stay the same as was announced, but for 1984 and 1985, there would be authority for the Secretary to hold the line if it looked like it was appropriate.

Senator BOSCHWITZ. Only 1984 and 1985?

Secretary BLOCK. Yes, and that is the duration of the 1981 Farm Act.

Senator BOSCHWITZ. Do you anticipate, Mr. Secretary, that on your farm you will make such a bid or offer?

Secretary BLOCK. I have been kept out of the farm program for 2 years, and it has cost me dearly, Senator. That is an obligation that I made. I just am not allowed to take part in programs because of my position.

Senator BOSCHITZ. It wasn't quite clear to me, and, Mr. Chairman, tell me, because I don't want to go beyond my time.

[Laughter.]

Senator BOSCHWITZ. It wasn't quite clear to me at the conclusion why a North Carolinian would participate in this program.

Secretary BLOCK. I can visualize a North Carolinian that perhaps his tractor wasn't running very well or his disc was not in good shape. Yet perhaps he wanted to cut his acreage, or his son had gone off to the city or something and he didn't have the labor.

There are any number of reasons why he may want to participate. His hired man may have quit and the producer wanted to cutback production a little bit. He would look at the situation and just decide on his own that it was more profitable for him under his circumstances to take delivery of some grain rather than raise all of it. Or maybe bid the whole farm in if he didn't want to farm at all, if he is going to retire. I think there are a number of reasons.

Senator COCHRAN. Senator Pryor?

Senator PRYOR. Thank you, Mr. Chairman.

I would like to say, Mr. Secretary, if you were to choose 2 years not to be farming, you probably chose the best ones.

[Laughter.]

Senator PRYOR. I would like to say, Mr. Secretary, that I applaud you for bringing before our committee and the Congress at least a concept with which we can work, maybe making some additions, some subtractions and certainly refining it. I think there has been some innovative thinking. It is the first new plan that we have had the opportunity to work with, and I just have one or two questions about it.

I guess I need Dr. Lesher to possibly answer this. I am trying to reconstruct what we did in the farm bill as it relates to our farm credit apparatus and the interest rate—whether or not we tied what the farmer would pay for loans at the Federal discount rate.

As I recall, we did. Am I correct there, or was there an additional——

Mr. LESHER. Not the Farm Credit System.

Secretary BLOCK. Under Secretary Lodwick, can you tell us the way that works?

Mr. LODWICK. I don't know that I fully appreciated the Senator's question. I do know that the current rate of interest today on commodity loans for this month is 9-1/8 percent, the lowest it has been in a long time.

Senator PRYOR. In some years, probably 3 years.

Secretary **Block**. And that is tied to the cost of money, and it has come down because the cost of money has come down.

Senator **Pryor**. I was thinking of your proposal and thinking about maybe extending the impact of this package. One thought I had was, that if a farmer is going to plant less, let's say 20 percent less or 30 percent less, he will have to borrow less, thus, decreasing the impact of requests for money on the system.

Secretary **Block**. That is correct.

Senator **Pryor**. I am wondering if it is possible to pursue the possibility, not to work it out today, but pursue the possibility of throwing in a 1 to 2 percent interest subsidy for the farmer at this time.

I think the cost of production is too high. I think we have to deal with the cost of production just as we are dealing with the oversupply. I think we are attacking the oversupply. I think an interest rate subsidy, if we are not going to be borrowing as much, would be a great help to the farmer at this time.

The second comment I would make is, it would just seem—and I am not asking questions, but I am making a speech—that the warehouses and elevators are going to play an even more crucial part in the life of the farmer. They are going to be a very key facility, as they have been in the past, but they are really going to have everything that farmer has right there in that warehouse. I am very hopeful that in this program somewhere we can come up with—and I have introduced a program like this—or at least we can look at the possibility of insurance for grain stored in the warehouse or elevator. I think that would give a great deal more stability and assurance to the farmers.

The third point I would make is in the area of rice. Senator Cochran and I come from rice States. By the way, our biggest crop lately in Arkansas is not rice or chickens or corn. It is marihuana. We are No. 2 in the Nation. We are growing marihuana very successfully down there in Arkansas, but the rice program today is a program that is very, very over-surplused, and the loan rate for the rice, for fall rice today is under the world market.

So that presents problems. It brings up Public Law 480. It also brings up the possibility of meshing or closing that gap in some way, and we may package something to try to close that gap to keep many individuals from losing their farms.

Once again, Mr. Secretary—and I have some other comments possibly in writing, but I won't take the committee's time—I really want to commend you for bringing before us a new idea and a new concept that I hope that we can work on and constructively pursue.

Thank you.

Secretary **Block**. Thank you.

Senator **Cochran**. Senator Heflin.

Senator **Heflin**. Do you intend to push this proposal and, hopefully, get enabling legislation during the lameduck session?

Secretary **Block**. Senator, we are counseling the key Members of Congress now to determine the best way of getting the appropriate legislation as soon as possible. I don't know the likelihood of getting it during the lameduck, but we are working on that at this very moment. It is in the works.

We need legislation soon because the farmers need to know what the plan is, and need to know that we can go forward. Once we have the authority, we can start putting together a definitive plan.

Senator **Heflin**. What date in 1983 would be the last date that Congress—well, a target date for Congress—to make it applicable to the 1983 crops.

You are talking about a 1983 program, and there has to be some time frame that Congress would have to act in.

Secretary **Block**. It depends on whether you are from Alabama or Minnesota. That is the difference. If you are from Alabama, you know, we don't have a long time.

Senator **Heflin**. It goes more by commodities.

Mr. **Lesher**. The farmer is out there and——

Senator **Heflin**. Is March 1 too late, or what? I am trying to get some idea. You have problems of recess and everything else.

Secretary **Block**. I would like to have something by the first of the year, personally.

Senator **Heflin**. Well, you have how many, possibly 5 or 6 or 7 days left in this lameduck session. Are you going to try to pass it now, or what? I don't want to change the time of PIK, PIP, and PIP is "pig in a poke" and we don't know what we have got.

I think the Congress has an obligation before it gives you blanket authority to come up with a new program to know a lot of details about it, and if this is going to be the only hearing that is going to be held, and then a massive effort made to pass it, we may have to be here until 3 or 4 o'clock in the morning asking details on questions. We must know the particulars of the program. It isn't as simple as it may sound.

Secretary **Block**. We are willing to talk any hours, any time, because we think it is important.

Senator **Heflin**. Are you planning to push this program immediately, or is it going to be after the Congress is gone, or what?

Secretary **Block**. That decision isn't made yet, honestly it isn't. The President just signed off on this several hours ago, and said, "It looks good to me, go with it."

I talked with farm organizations. It is not that we are trying to produce something offbeam that they are not ready for. We have a problem in agriculture and we are trying to get authority to do something about it. When we get authority to do it, we are still going to work with Congress to put it together in a way that it is going to work.

We want it to work, and we want it to be successful, because we have a common objective.

Senator **Heflin**. Farmers are going to want to know something.

Secretary **Block**. That is right.

Senator **Heflin**. You have a formula up there of history on it, and to get down to what is going to be the number of bales of cotton or the number of bushels of wheat paid on particular land, but you have to have a figure. Are you in effect trying to say that—well, is there any formula that you have formulated to get a payment figure?

Are you saying we are going to pay them 20 percent of their past history in a payment in kind, a 15 percent, a 10 percent, a 20 percent, 5 percent, or what?

In other words, the farmer has got to take your formula and see—write it out and see what it is going to come out to, and you are asking us right now to in effect go with this, and you say that there is a rate. What rate there is there?

Secretary **Block**. Senator, I can't tell you crop by crop. We don't have it at this stage.

Senator **Heflin**. Give us one crop, any crop.

Secretary **Block**. Say corn, which is an easy crop. We are thinking if a producer were told that he would get 75 percent of his production in kind if he didn't have to raise it, that he would probably go with the program. Many people would participate. We don't know for sure how many, but this is a self-disciplining exercise on our part, because we want it to work. You know, we want it to work, so we will do the best analysis we can.

Dr. Lesher is on the line as is his staff. We want to have the best analysis, so we put a program together that will work, I have to admit, having not done it for 3 or 4 or 5 years, we don't have absolute answers to some of these questions. But we are going to put it together, and as I say, it is a self-disciplining program because the last thing we want to do is fail.

We want it to succeed. We want farmers to go with it.

Senator **Heflin**. I am sure before OMB will sign off on it, they are going to want to know what it will cost.

Now, a farmer wants to know something about price. Now, your date of payments in kind, if you schedule them for different crops and different times, it may vary because of the many, many factors that get involved in it, what the production is, what the anticipated yield and all this sort of thing is at that particular time.

You in effect are doing a variable price payment in kind, not only as to the date of the payment, but what the farmer then does with it afterward.

There is not a lot of certainty as to what the farmer is going to receive. There is no guaranteed floor price.

Secretary **Block**. Senator, it is a variable, but it is not entirely uncertain. The farmer has certain prerogatives. Once he has started the program, he knows how much grain he has, he knows when it will become available, when he will have it in the bin, so, consequently, he can sell the grain ahead. He can, for example, sell it the day he signs up for the program. He can say, "I will deliver that October, at the elevator price." He can wait and gamble with it the way farmers do when they plant their crops and sell it in July or August, or October, which is in effect harvesttime. He has all that flexibility.

Senator **Heflin**. Will he be allowed to put his commodity that he receives in payment in kind back into loan.

Secretary **Block**. No, sir; he would not be able to do that.

Senator **Heflin**. Then there is no guarantee on the price he would get.

Secretary **Block**. He has no floor on his particular commodity in kind. That is correct.

Senator **Heflin**. Now, what is the goal of the Department of Agriculture in a reduction of surpluses? Do you intend to reduce down to, say, 10 percent of the present surpluses? Do you have a goal as to the percentages of surpluses that will exist as of the completion of the termination of this program?

Secretary **Block**. Looking at a little bit of the elaboration on the last question, I don't want to leave the impression that there would be nothing that could come under loans. The farmers who go in the first 20 percent, the regular acreage reduction program will have loan protection on that part. If they put 20 percent in under the regular acreage reduction program and they take another 30 percent out, for instance, under the PIK, they cannot put the 30 percent part under loan. But the rest that they raise, could go under loan.

So they are not shut out of the program. Only the PIK part gets shut off.

Senator **Heflin**. But if you know, then you have a floor, and a certainty.

Secretary **Block**. That is true.

Senator **Heflin**. You have a certainty and you have a floor; yet the payment in kind that the farmer receives is entirely variable.

Secretary **Block**. That is true, and that means that the farmer does go with the program on the PIK part, he assumes some risk. That puts the burden on us as the Department of Agriculture, to make the program desirable enough so that he will go with the program in spite of the risk the farmer may be taking.

Your other question was what?

Senator **Heflin**. What is your goal? You are going to a crash program, you are going toward elimination of surpluses and for curtailed production to eliminate surpluses.

Secretary **Block**. Yes.

Senator **Heflin**. What is your goal that you are endeavoring to seek with regard to the end result of what surpluses will be?

Secretary **Block**. If we look at different crops, I don't think that we can cut it clear down in 1 year. It would take too much of the agriculture production plant out and maybe hurt the local supporting industry and supporting services in agriculture.

We are thinking in feed grains maybe we could cut the carryover by between 700 and 900 million bushels, and——

Senator **Heflin**. It seems to me that you have to have a goal.

Secretary **Block**. We will have.

Senator **Heflin**. What is your goal?

Secretary **Block**. Senator, we are here today to get help from you and other Members of Congress. If you have advice.

Senator **Heflin**. I am asking questions. I have not made up my mind. I am trying to get to the bottom of this. This committee wants facts and particulars.

Secretary **Block**. I am getting a broad range of suggestions in grain, and the weather could have a big impact. If we assume normal weather and normal yields and normal exports, then we say we want to cut carryover by 600 to 800 million bushels, can you shoot for it, and we try to design a program that will get enough participation in the PIK part up to 50 percent, and then you take the others that bid their land in.

If it all works right, we will accomplish our objective, and if it doesn't we will fall short. We may go beyond it. We have to do the best we can.

Senator **Heflin**. Say *x* percentage you want to reduce. What percentage of surplus will you try to dispose of through the international donation program of your surplus?

Secretary **Block**. That will be very small, because in terms of volume, the Vice President has just been on an African trip and in our Cabinet meeting he was talking about some needs there. We are looking at Bangladesh and some others.

We will do what we can, but it will be a small percentage.

Mr. **Lesher**. It is smaller than what you think, because of the very poor countries that don't have any cash to buy anywhere. Also many do not have the infrastructure or the port facilities, the internal handling, such as roads, et cetera, to really handle the large amount of grain you would expect with so many hungry in the world.

It would not in fact be a large program because of that. The payment in kind that you give to the farmer, that your donation is not going to affect the market price. In other words, is the donation in competition with the price that the farmer will receive for the PIK?

Secretary **Block**. No, sir.

Senator **Heflin**. This is just cosmetic, then, the international donation?

Secretary **Block**. I don't think it is cosmetic. It doesn't take 1 billion people for there to be a real need. It could be 300 people, if you really help people who are starving.

Senator **Heflin**. I am not arguing with you on a philosophical basis, but I am trying to see in the overall scheme of reduction——

Secretary **Block**. No, sir; it is not as big.

Senator **Heflin**. Have you got any figures, 5 percent, or 10 percent, or 15 percent?

Mr. **Lesher**. It would be a few million metric tons lower. As far as looking at the international donation program as the means of disposing surpluses—it is only a humanitarian gesture with huge abundances in the United States and starving people in countries that do not have any cash to buy anything. In fact, it is just responsible for the United States to do what it can to help those countries out that have the handling facilities, et cetera. It really will have no impact on price.

Secretary **Block**. We are talking about maybe 1 or 2 percent.

Senator **Heflin**. What are you costing the farmer? He will have add-on costs in relation to this, such as weed control. Have you come up with additional add-on costs for conservation practices that would have to be carried out in the commodities on an acre basis?

Secretary **Block**. It will cost maybe $20 an acre or something like that. But the farmer he is going to have to look at the offer of the grain paid in kind and see if it is adequate to cover the value of the crop he would have raised minus the production costs and the costs of conservation.

Frankly, the program has to be attractive enough if the producer is willing to do it. Take the conservation and take the land out of production.

Senator HEFLIN. The anticipated but not now existing profit that the farmer might make on his farm on a per acre basis more than what you would be willing to give him in a PIK.

Secretary BLOCK. Yes, sir.

Senator HEFLIN. To that, he would add, I suppose, it ought to be some formula, added to it the add-on cost of the conservation practice he might have.

Secretary BLOCK. That would have to be added on or he won't go with the program.

Senator HEFLIN. I don't believe that your figure—I don't believe your 75 percent will be close to what you come out with relative to your thing. You are not going to make from your past history, you are not going to make 75 percent profit on a farm. Most of them are not making anything. Aren't you talking about somewhere in the neighborhood of not 75 percent, even with added conservation practices, a payment in kind representing an equivalent of what the farmer might get in the neighborhood of 25, 30, or 35 percent?

Secretary BLOCK. If that is true, they will all flock to our program if we put it at 75 percent. We are going to do the best we can.

Senator HEFLIN. Here we are, asking to rubberstamp a program, and we have to know something about it. We have that responsibility to the full Senate.

Secretary BLOCK. But, Senator, in all honesty, as we shape our programs, and we haven't always done the best job, somehow we just have to come up with a program that will work.

Senator HEFLIN. The farmers today are in a terrible situation. A crash program, a crash program designed to eliminate all surpluses and to reduce down to a certain amount, may leave us with no little family farmers. It may have a disastrous effect of saying that only the large farmer or only the corporate farmer will be able to exist after your program.

Secretary BLOCK. Senator, I hope this will help the farmers position more than anything else. We have farmers in need of operating money. They don't know where they are going to get their operating money this spring. It costs a lot to fertilize, buy the seed, and put in a big crop. If they go with this program, they won't have those costs. They won't have that up-front cost this spring. They will have a certificate for the grain. They already know what they are going to get.

The bankers are going to be a lot happier, because they know that farmer is secure for the year. He isn't going to be burned out with a hot, dry summer.

There are some advantages for the farmer who has his back against the wall. I really think they will be our heaviest participants.

Senator HEFLIN. I hope you are right, but we have to ask you questions. It is an integral part of our responsibility to the Senate and to American agriculture.

Secretary BLOCK. That is good. I am glad. I want to help you.

Senator HEFLIN. I don't believe you have all gotten into the details of this. I say again this program is not as simple as it may sound.

Mr. TRACY. We have to develop a number of details about this, and we expect to do so in full consultation with the industry.

What we have attempted to do is come up here and lay out the basic mechanics. The administrative details have to be laid out in a great deal of detail. The last thing after you get all the other things done is the operation. The program has to be attractive to the farmer so he will want to participate. The purpose of the program is to get farmers in it and get them participating. And I am sure that before we get the program ready for signup, we will have all the details ready. They will be announced.

Senator **Cochran**. Senator Boren?

Senator **Boren**. Thank you, Mr. Chairman.

I think Senator Heflin, in the course of his questioning, got to the heart of the matter as far as my own questions are concerned about it.

My own intellectual difficulty in grasping how this is going to be of immediate help to the farmers this year requires me to go back over that for 1 minute and try to put it back in perspective.

As to the payment, the certificate, the payment in kind that the farmer gets, there is no guarantee of value of that certificate once he gets it, correct?

Secretary **Block**. That is true.

Senator **Boren**. The bottom could fall out of that. I am not talking about what he is going to place under the regular loan program, but the bulk of his crop, what he participates in, say at 20 percent on wheat. I am talking about the part where he accepts payment in kind.

Secretary **Block**. Unless he is satisfied, the day he signs up he can go in and sell that crop. He knows how. If he has to sell, can go in and contract it. He has a guarantee if he wants to take it or he can gamble.

Senator **Boren**. He knows at the instant he is handed the receipt or certificate, he knows what it is worth, and if he sells it instantaneously, but if he waits an hour, in that preceding hour, he doesn't know how much it is worth. Depending upon how many of them under the pressure of the urgent economic situation we are in, and the urgent need for farmers to get their hands on cash immediately, the service debt, we don't know how much of that is going to go instantaneously on the market, do we?

Secretary **Block**. If he doesn't want to sell it, he has some risks, because he chose to own the grain. But he has reduced his production risk, because he knows how much he is going to raise.

There is a tradeoff, and you don't always know that.

Senator **Boren**. Now, to get at what I am trying to get at, let's compare this program to a program of paid diversion, which you and I have discussed before, and I am delighted today to hear you say that diverting acreage from production tends to lower the cost of the Government program and it lowers our amount in storage and eventually brings a price recovery. That is what I was arguing for all along.

I was disappointed that out of a 25 and 25 percent acreage reduction for the wheat program, we got only 20 out of the conference. I am happy to hear you say the diversion program is good. Let's compare it.

Under a paid diversion program, instead of payment in kind, if the farmer were getting what he needs, which is cash, instead of getting products, that is the No. 1 difference. First of all, the risk would not be borne by the farmer. If I am a farmer and I am going to agree to a certain amount of diversion and I am going to look at my past production on that acreage just as you look at it under your program, the only difference between paid diversion and what you are talking about is, you are going to pay that farmer for diverting his crop, you are going to pay him in grain or whatever it is, as opposed to paying him in cash. Right? That is the only difference?

Secretary BLOCK. Yes.

Senator BOREN. You are going to shift the risk of the vicissitudes of the market from the Government to the farmer; is that the case?

Secretary BLOCK. I don't entirely agree with that. If he wants to keep it and gamble with it, he takes the risk. If he wants to sell it the same day, he doesn't have any risk at all. He knows the price and the volume of the grain he is going to get.

Senator BOREN. Now, as to the amount of grain, if we have a paid diversion program, as to the amount of grain sitting here in Government stocks, or the farmer reserve or private stocks, that amount of grain is still there, right? We have a paid diversion program. Now, as we reduce the acreage, hopefully as years go along, we are going to be drawing that down, but in terms of the amount of grain that is there right now, there is a certain amount of grain in storage and private storage and so forth. There is a certain amount there. That is not going to change, and will still be there, in the first year.

The benefit of your program certainly is that it is going to be drawn down, hopefully.

Now, if we have a paid diversion program and the farmer gets cash as opposed to a receipt or certain amount of grain or any kind of payment, a certain amount of grain over here remaining in storage, if we are ultimately going to have the market price recovery, we have to get the overhang off. We all agree on that.

Now, let's suppose that you don't pay it out to the farmer. We have got the same number of—let's use this figure. You have a hundred in storage, 100 *x*, whatever that is. Where are you going to sell that 100 *x*?

Secretary BLOCK. You mean?

Senator BOREN. Where is the market for it?

Secretary BLOCK. I am not sure what you mean. The farmer gets a certificate, and where will he sell the grain if he wants to sell it?

Senator BOREN. By shifting the title of the grain from the Government, which is bearing the storage cost and shifting that over to the farmer, how do you do anything in the first year?

I am concerned about getting our farmers through the next 12 months.

Secretary BLOCK. I am, too, sir.

Senator BOREN. How do you do anything to increase the market for the 100 *x* volume of grain now, whether it is now 50 *x* in Government hands and 50 *x* in private hands. You still have 100 *x*. You have 50 *x* in private hands. You have not changed the total amount, because you haven't sold it.

Secretary BLOCK. You have reduced the carryover?

Senator Boren. The first year now. We are not talking about the second year. You will reduce the carryover in the first year?

Secretary Block. Yes, by the end of this year, the carryover will be reduced.

Senator Boren. How?

Secretary Block. We are not going to raise as much because of the program.

Senator Boren. I agree with that.

Secretary Block. We won't have stocks as large as otherwise in the United States and won't need as much storage and the price should be stronger.

Senator Boren. I want to go back to the comparison of my paid diversion program. Maybe we are just not connecting here. Where is your program going to miraculously create the market for grain that you are generously giving to the farmer? Why is he better off to get the grain, than he would be getting cash, or how is he even as close to being well off with grain that he has to store, and he is already in a cash-flow problem and already under financial pressure? You are not going to have drawdown on your carryover until your reduced acreage has impact.

I am talking about what do you do to the market price right away.

Secretary Block. It is going to have an impact as soon as the trade realizes we are not going to raise as much. That will be reflected immediately. The trade is watching all the time. It will have an immediate impact, as soon as the trade decides the program will work.

Senator Boren. You are not concerned about the fact that the farmer, because of his own financial picture, will not be pressed to put a great amount of that grain, which he is receiving as in-kind payment, on the market. That farmer needing cash, trying to salvage his farm, trying to make the payment at the bank, are you not concerned that a great amount of that might not flood onto the market immediately?

Secretary Block. No, sir, I am not too concerned because the experience of this year, when we only had a 25-percent corn program, was that the corn farmers still didn't put the corn on the market.

The basis has been a negative basis.

Senator Boren. Why do you think they didn't put their product on the market?

Secretary Block. They weren't satisfied with the price.

Senator Boren. That is exactly it.

Mr. Lesher. He doesn't have to put out the money to make the crop, and at harvesttime he will have the grain that he didn't have to borrow on. So he won't, perhaps, be as willing to sell on the first day after harvest.

Senator Boren. It seems to me if you compare this program with a paid diversion program, the difference is that instead of giving the farmer something if he is holding it any length of time at all, so you are transferring the risk, comparing those two programs, transferring the risk from the Government to the farmer.

The second thing is, you are transferring the obligation to dispose of surplus stock from the farmer, who is even less able to deal with the surplus stocks than the Government is able to deal with the surplus stocks. That seems to me that is what you are doing when you compare. Maybe it is an unfair comparison because we don't have a sufficient paid diversion program on the books with which to compare it, but it seems to me that that is what you are doing, and in either case, it would also seem to me that you are going to have to couple with it some kind of program to help us in year one.

Now, I think in year two, when we go with paid diversion with your payment in kind, if we can survive year one, by year two we might begin to see beneficial results.

I think the crisis is now, and I am concerned about the next 12 months. It seems to me if you want to go to this kind of program, and if we go to it, I hope to heck it works. I am having great difficulty in seeing how it is going to work, because I guess I have a different assessment than you about what farmers may do, as pressed for cash as they are, and what might happen with the immediate market price if this product payment in kind takes place.

I am concerned you are going to further collapse the price, that will be a more important prediction than the market overhang next year, and you will pay the farmer with something that will decrease in value.

In year one, I am concerned that you will make it worse. Maybe you will make it better in year two or three. You have spoken well of the blended credit program, the export credit funds and the combination of credit, but I haven't heard you ask for more money for that program.

It seems to me at the very least if we are going to have to go into this program, we are going to have to ask for major increases in other programs that will help us take the market pressures off the overhang, because, really, if you succeed, what you have really said, if you succeed in getting a lot of grain out of storage that is in surplus, if you succeed in getting a lot out in year one, what you have succeeded in doing is dumping it on an already depressed market.

What are you going to do to stabilize the price and assure the farmer that the receipt has any value during that time?

Secretary BLOCK. Senator, I would concede a paid diversion, if we had the resources to spend on it. We might get land out. We all know that. But it takes a lot of resources in dollars. We are looking to take the liability that we have in this grain and use it as an asset, and the producers, after they take this payment in kind at harvesttime, will not have as much grain as they would have had had they not been in the program.

They are not going to get 100 percent of yield, 100 percent of base. They are going to get—Senator Heflin thinks they will get 5 or 30 percent.

Senator BOREN. Well——

Secretary BLOCK. We are going to put a substantially less amount of grain on the market. You understand, we would really reduce the pressure on the markets, and as I say, once the trade realizes there won't be as much grain produced, the markets should strengthen.

Senator BOREN. Maybe you are right. All I am saying is that I think if we proceed with something like this to reduce the gamble of the farmer, and resist the risk of severe fluctuation in the value of that receipt, it seems to me the Department should be asking here for additional funds for marketing programs for disposal, assisting the farmer in disposing of the overhang that might well find itself prematurely into the market given the pressed circumstances the farmer already finds himself in.

I would just ask you to very seriously consider that possibility as a part of the program. It would certainly make a difference in how I would vote for it, because I am very—we are so much on the edge. I am very, very concerned that for the sake of getting something that 2 or 3 years from now might have improvement in the picture that we collapse it in the meantime particularly for the small farmer.[1]

Senator **Cochran**. Did you bring a suitcase with you? I know you are going to Brussels, and you have a plane to catch. We want you to go on that trip

Secretary **Block**. Thank you, sir. [Laughter.]

Senator **Cochran**. We recognize your problems, and I am going to ask Senator Dixon to go next, and if we have time, we will get back to Senator Heflin.

Senator **Heflin**. He said he was willing to stay here all night. I suppose if he is going to Brussels, he will not push it.

Secretary **Block**. I leave these people here. I will leave Dr. Lesher for you, sir.

Senator **Dixon**. Mr. Chairman, I want to thank the Secretary for contributing this important idea to us, and it has been a very novel discussion, I think, and an unusual one. I have just four questions, Mr. Secretary, that I will ask very briefly, and I would appreciate your response.

First of all, in my comments before I left here to confer with our Governor of Illinois, I suggested that this is a bright, innovative new idea. Is it a new idea? Is there any experience as far as this kind of idea is concerned either in this country or any place else in the world? Has anything like this been tried before?

Secretary **Block**. Yes, sir, something was tried in the sixties, but not implemented in this way. I don't know whether anyone could comment on it here.

Senator **Dixon**. By whom in the sixties?

Mr. **Tracy**. By the United States, but also in the thirties. One of the reasons the program didn't work was that the farmer didn't really know what he was getting. The very problem Senator Heflin brought up. In our program the farmer would have a certificate for so many bushels, and he would know that he would be able to get his local market price when he cashes it.

The problem earlier was that the farmer had a certificate good for corn somewhere else, and by the time he dealt with the warehouse some distance away, he suffered discounts and so on. That is avoided in this program, because he is guaranteed his local price, and, of course, as any farmer can, at any point during the crop year, he can go out and fix the price he gets by a forward contract with his local elevator.

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[1] See p. 189 for written questions from Senator Boren and the Department's answers thereto.

So this farmer knows what he is getting in bushels, and he can set the price if he wants to, or take the risk if he wants to.

Senator DIXON. But the basic thrust of the idea was tried by the USDA in the sixties, can you make available to me and my office all the information concerning that, what Secretary of Agriculture it was, what type of experience it was, how they operated the program and so forth, so we can flesh in what was done?

Mr. TRACY. It was operated during the first year of the Kennedy administration; proposed in the campaign by the other side.

Senator DIXON. What was the effect of the prices in the country when this particular program was undertaken in the sixties.

I appreciate you say it was not a success at that time, but was there a dramatic drop in prices, was there anything that one should be concerned about in that regard?

Mr. TRACY. No; I understand there was a modest rise in those prices.

Senator DIXON. But they thought the program was not a success.

Mr. TRACY. Farmers were disappointed. They thought they were getting. a certificate.

Senator DIXON. If all the farmers who received these certificates would sell almost contemporaneously so that you would have what would amount to a run on the marketplace. Has that been something you thought about, the fact that it would be a terribly depressing experience?

Secretary BLOCK. It could depress prices, but that would be the same at any harvesttime, if the farmers decided to sell their crop on any particular day.

But as quick as prices start to go down, Senator, farmers quit selling.

Senator DIXON. I appreciate that, Mr. Secretary, but here we are dealing with something that you would readily understand that is sort of novel with the farmer. He knows what he does now. He has a track experience. Most are very experienced people in their business, and here we are going to suggest something new to them. Even in the testimony we have here, no one has any true confidence in the value of what the certificate would be over a period of time, and it occurs to me in the depressed marketplace that we have now, where farmers are hurting for cash, that most might opt to convert to cash. If many did it contemporaneously, I would suggest that it might be a very traumatic experience in the marketplace.

Secretary BLOCK. If they all did it at once, sir, it would be.

Senator DIXON. I think it is something you ought to think about.

Mr. TRACY. They could forward the contracts for the grain, but the certificate itself can't be redeemed until fall. And at the time that certificate is eligible for redemption, there would be a greater amount of corn than that represented by the certificate that was not produced and, therefore, not available to the market, because of the acreage reduction program. So, there should be, in fact, less corn available.

Senator DIXON. One thing that has bothered me in the time I have been here listening to the questions and the answers is the same thing that bothered me, Mr. Secretary, and this is no reflection on you.

You know my personal friendship for you and high regard for you, and the U.S. Department of Agriculture, but what bothers me about this is so many times we are being asked here to take you on faith, and I must say candidly I think the American farmer is, too.

It looks like everything is in your hands to determine, and that is what my colleague from Alabama talked about, how you are going to handle this, how much the farmer will receive in connection with his agreement to enter into the PIK program with you and so forth.

It doesn't sound to me like the farmer is going to have input with the USDA, how that is arrived at, or the Congress is going to have any input on how that is determined.

In other words, what I am trying to say, when you talk about the loan rate or target prices, as we discussed in the committee last year whether we would even have target prices, and that carried the day, and we argued about the price, and the loan rates, and we have changed it since. But each time the Congress, acting in the representative capacity, did certain things. But here, as I perceive this PIK program, if we say "Go," then we say, "USDA, it is all up to you." That bothers me a little bit. Do you follow me and my concern about that aspect of the PIK program?

Secretary BLOCK. Yes; we don't pretend to do this in the closet. We met with farm organizations, and will use our best judgment.

Senator DIXON. If I could interrupt at this point.

Secretary BLOCK. Yes.

Senator DIXON. As far as we are concerned, when we go into this in a specific way, I would hope that we consider the input of Congress with respect to how we arrive at these judgments, and even the possibility of the input of the Agriculture Committee and their representative groups in meetings with the USDA and all, when we arrive at the question of whether it is really 75 percent or 35 percent, or whatever it is.

These are pretty important questions for the American farmer, and I would hope that we would all recognize that there is a sense of isolation if that is going to be left up to the USDA without a participatory process by the agricultural community and those sectors of the Congress which care very much about their welfare for this and in ensuing years.

Secretary BLOCK. Senator, they are so critical that we thought about taking bids for the whole program, because we weren't sure we could pick the right percent of a base to offer a producer so he would participate. We thought maybe we could let the producers bid and take bids until we got enough acres. But our reading from the farm community was that they didn't like the bid idea, bidding against neighbors and all. So we thought we could best prescribe bids to the smaller amount of acres that might be taken out with whole farms which would be easier to deal with. The bid basis is cumbersome for our ASC offices.

But we understood that difficulty, the fine line of picking the right figure.

Senator DIXON. Let me ask my final question. A great deal has been said by my friends from Alabama and from Oklahoma and programs by others before I got here, that the concern central to this question is that you have thrown the gamble back to the

American farmer and taken the gamble away from the Government with respect to prices.

I wonder if some thought shouldn't be given to protecting this situation with respect to a basic, a floor price, which, of course, would mean that the Government might have to come up with some subsidy if the program doesn't turn out as well as we hoped.

But I think in all fairness to the American farmer, who is in a very difficult circumstance now, that is something we ought to consider. That is to say, if some of the things that have been suggested here turn out to be true and we see a depressed factor in the marketplace by what we are doing here, that the farmer would have some protection for entering into this system suggested by the Government and taking a risk for his Government to reduce the surpluses and help the marketplace.

Senator HEFLIN. I have two questions. Mr. Secretary, I suppose you are aware that there are a lot of rumors floating around that this is merely a sham for the sole purpose of obtaining a freeze on target prices.

Are you willing to see that language is placed into a bill that would establish a formula that before the freeze and target prices would go into effect, that a certain amount of acreage would have to go into their diversion program that would qualify for the PIK program?

Secretary BLOCK. I would be very happy to work with Congress on this, because I assure you that the objective is not to just freeze targets.

Senator HEFLIN. I am extremely interested in making this successful. I think it is absolotely crucial that agriculture have a program that reduces stocks and strengthens price. I am merely saying that, and we all realize that originally you opposed target prices.

Secretary BLOCK. I still don't like target prices very much. I can't help my philosophy, sir.

Senator HEFLIN. If you have to catch a plane, I have a number of questions. I don't want to delay you.

Secretary BLOCK. I do have to go.

Senator COCHRAN. Mr. Secretary, thank you for coming up to the Hill I know you have a problem with a flight at 5:05. You need to go.

Secretary BLOCK. Mr. Chairman, thank you for your time and the rest of the committee, and we look forward to working with the rest of you on this program.[1]

As I said in the beginning, what we have right now is not good enough for agriculture, and we must have something more. This looks to me like the only practical game in town.

Thank you.

Senator COCHRAN. The hearing record will remain open for statements by other members or interested associations. They will be included as part of the hearing record.

The hearing is adjourned.

[Whereupon, at 4:25 p.m., the subcommittee adjourned, subject to call of the Chair.]

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[1] See p. 190 for additional material relating to PIK supplied by the Department of Agriculture.

APPENDIX

STATEMENT OF HON. DAVID L. BOREN, A U.S. SENATOR FROM OKLAHOMA

I would like to commend Chairman Cochran and Senator Huddleston for calling these hearings and giving me a chance to express by views on this legislation. For, today, the agricultural issue is the major issue we face. Until there is economic recovery in the agricultural sector, we'll never have a real economic recovery in the United States.

For example, in my home State of Oklahoma, net farm income averaged $2,017 in 1981, according to the Oklahoma Crop and Livestock Reporting Service. The total is 48 percent below the 1980 level of $3,895. The net income before inventory adjustment amounts to only $14 per farm. The $14 figure was corroborated in a recent report, entitled "Economic Indicators of the Farm Sector," published by USDA in mid-November. The USDA report also stated that the number of farms in Oklahoma, between 1978 and 1981, declined by over 2,000 and that total farm debt in Oklahoma increased during the same period of time by about $2 billion, while production costs increased by 166 percent.

Nationwide, the Farmers Home Administration reports a 47.7 percent decline in loan volume from 1981, and a record 8,227 FmHA borrowers were forced out-of-business during that year.

These figures readily show that we have a serious economic problem in agriculture, not only in Oklahoma, but all across the country. In fact, I would venture to say, that we are not threatened by an economic depression on the farm at the present time—we are in the middle of a depression. Clearly, something must be done.

I commend Secretary Block for his concern and recognition that there is a serious problem in agriculture, and that we are going to have to take drastic action if we're to reverse the trend. We share the belief that it will take a massive acreage reduction to bring supply more in line with demand.

I do have questions about how the payment-in-kind (PIK) proposal would operate. From our calculations, this proposal will not raise the market price enough to really help our farmers. Further, without a substantial paid diversion combined with PIK, I don't believe farmers will have sufficient cash to survive.

I do not believe the PIK should serve as a replacement for the program that is already in effect for 1983. If anything, the farmers should be given the option of idling an additional percentage of their acreage in return for an in-kind payment. Furthermore, the minimum program requirement for 1984, the 7.5 percent acreage reduction and the 7.5 percent paid diversion, is, in my opinion, totally inadequate. Even if a PIK program were to be offered on top of this, I still question whether the farmer will have enough cashflow to survive. I would recommend that if we place any minimum that we look seriously at a minimum level somewhere between 20 and 30 percent for all crops.

I certainly question the implications of allowing the Secretary to pull whole farms out of production. I don't believe it's fair for only certain farmers to have the opportunity to participate in whatever the program is. This, it seems, will be the obvious result of the payment-in-kind program, as, for economic reasons, we cannot let everyone pull out of production all of their acreage or it would literally destroy an already depressed rural economy.

Additionally, I think we should question how the farmers who get to participate are picked. The logical method would be by bids. But, if such were the case, all the family farmers would be left out because the big farmers could under-bid them. I would certainly recommend that a maximum be placed on the amount of acreage which could be idled on any one farm and thereby allow everyone to participate. After all, if we're going to really help the farmers, we should help all of them. Let's not pick and choose which ones we will let survive!

From all our calculations, I do not see how the Secretary intends to offer a PIK program using just government-owned stocks. There simply aren't enough. It would seem to me the only other place to acquire stocks to operate such a program would be the farmer-owned reserve. Granted, we do not like the fact that the reserve has grown to an excessively high level and is hanging over the market. But, it is important to remember that while grain is in the reserve, it cannot become free stocks, unless the market price increases. Now it would seem that if the Secretary intends to pull grain out of the reserve, the obvious result will be a lower price for the farmer.

I was pleased to see that the Cochran-Huddleston bill addressed the area of exports, also. I, too, believe our export markets must be strengthened. The U.S. poultry industry has been victimized by other nations which subsidize their own poultry exports, enabling them to undercut American exports in international markets. According to the USDA's Foreign Agricultural Service, exports of whole young chickens have decreased 60 percent from June, 1981, to June, 1982, a decline of 45,000 metric tons.

The loss of export markets to France and Brazil is the most dramatic example of this decline. From January to June of 1981, the U.S. exported 22,438 metric tons of poultry to Iraq and 25,857 metric tons to Egypt. During the same period in 1982, the U.S. exported nothing to these two countries after losing bids to France and Brazil. This loss represents approximately 1.7 percent of total U.S. production for this six-month period.

In comparing export levels during the period of 1954 to 1966 with the period 1979 to 1980, it is obvious that the U.S. share of the Middle East market for whole chickens has seen a staggering decline, from 91.7 percent to 5.7 percent. During this same period, the marketshare for the European Community rose from 4.1 percent to 54.2 percent.

The Office of the U.S. Trade Representative is now dealing with a Section 301 Unfair Trade Practice case relating to poultry. I strongly urge the Trade Representative to take expeditious action through the dispute settlement process so that these subsidies, which obviously have given other nations and unfair advantage, will be made more equitable to U.S. poultry producers. We, too, must do all we can to regain our lost markets.

Nobody favors balancing the budget more than I do. I have repeatedly supported legislation to reduce the deficit. One of the reasons I believe so strongly in a balanced budget is that I feel it would be the best way to help our economy. In my opinion, it will not help our economy one bit, however, if we have a surplus in our budget and at the same time allow our farmers to go broke!

Agriculture was, is, and always will be the foundation of this country . . . that is, it will be the foundation of a *strong* country. We can let our farmers go broke, but I think our posterity deserves better.

STATEMENT OF HON. ALAN J. DIXON, A U.S. SENATOR FROM ILLINOIS

Mr. Chairman, what's on all of our minds here today is a depressed agricultural economy. Interest rates have moderated some in recent weeks, but they're still too high. Production costs may not be outstripping inflation, but they're still on the rise. Commodity prices are down, our export market needs a boost, and, in real dollars, the estimate for net farm income for 1982—about $19 billion—is the lowest since the days of the Great Depression.

We in the Congress are now called upon to consider alterations in our agricultural policies. As we do that, we must try to assess as accurately as we can the impact any changes will have on the farmer and the economy.

American farmers have completed another record year for total crop production, including new highs for corn and wheat.

The USDA estimates the corn crop will yield more than 8.3 billion bushels.

Based on the most recent estimates, only about 7.6 billion bushels of this year's crop will be needed for domestic and export use.

That means nearly 3.6 billion bushels will be carried over into the next crop year—the largest carryover in history. It is estimated that at the end of the 1982/1983 crop year, the United States will hold 80 percent of the world's carryover stock of corn.

This overabundance of course, tends to depress farm prices.

As a result of congressional action taken earlier this year, the USDA recently announced its 1983 farm program. The emphasis on the program is to reduce production, lower government outlays, and raise prices.

Farmers tend to ignore the Government's plea to plant 10 percent less in 1982. The 1983 program is designed to increase farmer participation, and thereby reduce overproduction.

I was a cosponsor of, and worked for, the Senate amendment that provided for the 1983 paid diversion/reduced acreage program, and I believe it can help reduce our surplus, strengthen our markets and save the Federal Government some money.

Now, the Department of Agriculture is considering adding something to the already-announced program. It's a feature known as "payment in kind."

We should look closely at this option. I hope the Department will have answers to a number of questions that are in the minds of Illinois farmers. For example "How will farmers be able to market the grain? What will be the effect on prices? Who can participate? How do you participate? Will there be participation limits by county? Will the $50,000 payment limitation apply? At what rate will payment be made: 100 percent of established yield or a lesser amount?"

Mr. Chairman, I look forward to hearing what our distinguished group of witnesses has to say on this new proposal.

STATEMENT BY GARY D. MYERS, PRESIDENT OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. Chairman, my name is Gary D. Myers and I am President of the National Council of Farmer Cooperatives. The National Council is an association representing more than 6,400 farmer cooperatives with a combined membership of 2 million member-owners. The National Council's membership includes 114 regional marketing and farm supply cooperatives, the 37 banks of the cooperative Farm Credit System, and 31 state councils of farmer cooperatives. Our members handle practically every type of agricultural commodity produced in the U.S., market these commodities both domestically and overseas, and furnish production supplies and credit to their farmer members and patrons.

The National Council commends you Mr. Chairman, and the other members of this Committee for conducting this hearing in an effort to gain additional input on initiatives which could be taken to improve our current agricultural situation. We at the National Council believe that an improvement in the agricultural economy will only occur through a concerted effort by those of us interested in maintaining a viable agricultural sector. Any policy which the Congress adopts in an effort to improve this situation must be geared towards reducing carryover stocks on the domestic side and enhancing U.S. farm product exports in the international marketplace.

Many of the general farm organizations as well as commodity groups will address the costs and benefits of the proposed domestic PIK (i. e. Payment-in-Kind) program on reducing carryover stocks of both wheat and feed grains. In an effort to avoid duplication, I would like to focus my attention specifically on the export situation and propose to the Committee a program which would help enhance the U.S. market share for a number of agricultural commodities.

As you know, in FY'82, the gross value of U.S. agricultural exports declined over $4 billion from $43.5 to $39 billion. This represented the first year-to-year decline in the gross value of U.S. agricultural exports since 1969. The U.S. Department of Agriculture is currently projecting that in FY'83 U.S. exports will decline to $37 billion. In addition, the Department is projecting a decline in export volume in FY'83 from 163 m.m.t to 155 m.m.t.

Mr. Chairman, there are a number of reasons for these projected declines in both the value and volume of U.S. agricultural exports:

(1) Worldwide recession -- The depressed world economy has dampened growth in the demand for agricultural products, particularly in the middle and high income countries. In 1978, GNP grew at an annual rate of 4% in the industrialized countries and 3.8% in the LDC's. In 1982, the projected growth rates have fallen to .4% in the industrialized countries and 2.5% in the LDC's.

The largest decline in the demand for U.S. agricultural products in terms of value from 1980/81 to 1981/82 have been in: Latin America - $1.9 billion, Asia - $1.3 billion, and Eastern Europe - $1.0 billion.

(2) Strength of the U.S. dollar -- During much of the 1970's, a weakening of the dollar acted as a stimulus to demand as U.S. products became cheaper relative to foreign currencies. However, over the past two years, the value of the dollar against other currencies has increased roughly 20%. Since September 1981, the USDA's index of trade weighted dollar exchange rates for all U.S. agricultural exports has increased 30%. The increase in the index

has been lead by: wheat - 39%, corn - 32%, and soybeans - 23%.

(3) Creditworthiness problems facing U.S. customers -- Many of the nations currently experiencing creditworthiness problems represent some of our most important markets -- Mexico, Poland, Brazil, Peru, Venezuela, Bolivia and Romania. The debt burden in developing countries will exceed $600 billion by end of 1982, more than half of which is owed to commercial banks in the West. In Central and South America alone, the accumulated foreign debts approach a staggering $240 billion -- more than triple the debt of just six years ago.

The downturn in imports of U.S. agricultural goods is perhaps most visible in Eastern Europe. This region, once one of the most promising growth markets for U.S. farm exports, has seen imports of U.S. agricultural goods decline by 55% in the first half of fiscal year 1982, compared to a similar period in 1981. And

(4) Increased use of export and production subsidies by the EC -- The EC's aggressive use of export programs since 1976 to dispose of surplus stocks, generated by their high internal support prices, has made the Community a major contender for world markets. This is shown by the fact that:

-- EC exports to countries outside the Community have more than doubled in 5 years;

-- The EC's 1982 exports of over $80 billion in farm products to all sources will continue 2 decades of uninterrupted gains in farm exports; and

-- EC exports of close to $30 billion to third country markets in 1982 will be approximately three-fourths of the entire U.S. export level.

The dramatic growth in EC agricultural exports has been closely correlated with an increase in their funding for export subsidies. In 1976, the EC exported $12 billion of agricultural commodities while spending $2 billion on export refunds. By 1982, the EC exported $40 billion while spending $7 to 8 billion on export refunds.

MARKET ENHANCEMENT PROGRAM

Given the dramatic change in the U.S. export picture and the reasons for this change, the National Council of Farmer Cooperatives urges the Congress to adopt a strong export proposal which will help to re-establish the U.S. in the world agricultural marketplace. Any export package adopted by the Congress should have two primary goals:

(1) Enhance the U.S. market share for those commodities included under the program; and

(2) Offset the continued use of export subsidies by the European Community.

The National Council firmly believes that the Administration will continue to be unsuccessful in their attempts to negotiate the issue of export subsidies with the EC because the U.S. is bargaining from a position of weakness. A well designed market enhancement program would give the U.S. a tool which would counteract the EC's export refunds and in addition, provide a basis for bringing the Europeans to the negotiating table.

The National Council's Blue Ribbon Committee on Trade met this week to formulate an agricultural trade program. The Committee's proposal, the Market Enhancement Program, would operate as follows:

(1) USDA/FAS would establish export targets by commodity (at the beginning of the marketing year) for each importing country. Export targets would include both commercial and concessional sales.

(2) Once an importing country reached its export target, the CCC would begin to grant bonus certificates to the importers for each $1

of product they purchased above the export target.

(3) Bonus certificates would be used to purchase any commodity which is:

-- Currently in CCC inventory;

-- Covered by a Federal marketing order which had a reserve pool established; or is

-- Determined by the Secretary of Agriculture to be losing its share of the market due to the use of export subsidies or soft credit.

(4) The value of the bonus certificates issued by the CCC would be set by the Secretary for each commodity and in each market where the program applied. This authority would give the Secretary the flexibility to set the value of the bonus certificates at a level necessary to meet existing competition.

(5) The Secretary would have the authority to offer dairy products as part of any sale through the certificate program.

(6) The Secretary would be given the authority to deny bonus certificates to any country where it was determined that transshipments were taking place; and

(7) The Secretary would be given the authority to administer a similar program under Titles I and III of the P.L. 480 program.

Mr. Chairman, the National Council strongly supports Title III of your bill which provides the Secretary with the basic authority to implement the Market Enhancement Program. We would encourage the Committee to include additional language in your bill giving the Secretary the authority to include non-CCC owned commodities under the program -- including those under marketing orders and some value-added commodities.

Again, Mr. Chairman, thank you for the opportunity to appear before the Committee this morning and I would be glad to answer any questions the Committee members may have.

[The following was submitted by Mr. Myers, see p. 21 for oral reference:]

RESOLUTION BY THE BLUE RIBBON EXPORT COMMITTEE OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Whereas, there is a need to continue to push our international trading partners towards free trade; and

Whereas, there is a tremendous surplus of dairy products, including butter, cheese, and nonfat dried milk, in the United States being maintained at a considerable cost to the U.S. taxpayer; and

Whereas, the there is a need to offset the impact of inequitable trade practices established by our competitors in the world market; be it therefore

Resolved, that the Secretary of Agriculture be strongly encouraged to use every authority available to him to move surplus dairy products into the international market.

STATEMENT OF ROBERT M. FREDERICK, LEGISLATIVE DIRECTOR NATIONAL GRANGE, WASHINGTON, D.C.

I am Robert M. Frederick, Legislative Director of the National Grange. Our headquarters are located at 1616 H Street, N.W., Washington, D.C.

The National Grange, representing members in 41 states, wishes to thank you Mr. Chairman, for calling this hearing to explore new methods of production and stock reduction of the major commodities. We also express our appreciation to you and the ranking minority member, Senator Huddleston, for introducing legislation that address this vital subject.

I do not believe it is necessary to review the conditions in American agriculture that brought about this hearing and others to follow. Our farmers are faced with low prices, increased production costs, dwindling domestic and foreign markets - a blueprint for a financial disaster in agriculture in any year - plus, huge stocks of wheat, feed grains, rice and cotton that make the future indeed bleak.

The conditions that exist today were brought about by many factors: three years of good weather at home; no major crop failures around the world; increased foreign production to meet the requirements of the Soviet Union after we gave up that market; a declining world economy and increased value of the dollar leading to the drying up of third world demand and the failure in the administration of domestic farm programs that did not take into consideration the decline in world demand and the lingering effects of previously placed embargoes of U.S. agriculture exports. All of this has led to the build-up of huge stocks of the major agriculture commodities and depressed farm prices.

No one Administration is at fault, there is enough blame to go around. And the best interest of U.S. farmers will not be served by trying to blame the other fellow for the condition of American agriculture. We all have been guilty of believing that we could export our way to farm prosperity, not taking into consideration the vagaries of the world market. Export we must, if our farmers are to maintain the production capacity to furnish the domestic market with an abundant supply of food and fiber at reasonable prices. But we must realize that the export growth of the 70's can not be expected to continue forever. We know now that the only domestic farm program can not be just increased emphasis on agricultural exports. Continued promotion and long-term market development is needed, backed-up by domestic farm programs that provide a safety net of price floors and orderly marketing provisions.

The National Grange cautions against scraping present farm programs for any untried provisions that would remove or freeze target price protection. We agree that the next Congress should look at the level and escalation of target prices for 1984 and 1985 but we do not agree to changing the target prices for 1983 under any conditions. The primary reason that farm program costs for the major commodities have escalated so rapidly is that we are buying out two years of overproduction in one year in order to reduce stocks and enhance prices. Farmers are harvesting the results of an inadequate farm program. It seems as if someone in this Administration discovered that if program benefits were low farmers would not comply, therefore reducing the cost of farm programs.

The stocks reduction and conservation program, better known as the Payment In Kind (PIK) program has merit in meeting some of the above objectives. However, it should only be considered as an additional option for 1983 to secure increased acreage diversion above that already announced by the Secretary. If the track record in 1983 for PIK is positive it could be retained as a program option for farmers in future farm programs. However, farmers should not be asked to give up or agree to a reduction in target price protection for an untried and unproven program whose economic benefit to farmers is unknown.

Mr. Chairman, the Agricultural Act of 1982 as introduced by you and Senator Huddleston also meets many of the criteria for new farm program direction without changing the basic concept. We are encouraged that your bill addresses the problem of low loan rates. We do not believe that an increase in loan rates means decreased agricultural exports any more than we believe that low loan rates were the cause of increased exports during the last decade. True, loan rates can be too high and can increase cost of farm programs and interfere with exports, but we are not there yet. However, with high carry-over stocks and depressed world demands, this may not be the best time to increase loan rates as it could have an effect on world prices and can lead to increasing the cost of removing land from production.

The Agricultural Act of 1982 also contains some innovating ideas on disposal of surplus stocks by giving the Secretary of Agriculture authority to make available to U.S. exporters, U.S. processors and foreign customers bonus stocks from the Commodity Credit Corporation to encourage the sales of U.S. farm products. This is a novel idea that has merit but we question how much of our excess stocks would be moved. We certainly agree that some assurance must be in place regarding transhipment and interference with commercial sales or the effort would be counter-productive. We would much prefer that CCC surplus stocks be sold through farmers, via the PIK program or dispersed through PL-480. We would not want to see such a bonus sale program through CCC that could be the start of direct sales by our government.

It is difficult for the Grange to support or oppose the stocks reduction and conservation program (PIK) when all we know of the program is the concept. However, we would like to make the following observations:

1. The payment in kind program should not replace or be an alternative to present set-aside and paid diversion programs as announced for 1983. It should be an addition to the present program at the option of the farmer for diverting land in addition to the announced program.

2. Farmers should not be asked to accept lower loan levels or reduction in or a freeze of target prices in exchange for an unknown quantity.

3. The payment ratio of the payment in kind should be between 40% and 65% of proven yield on land diverted, with higher payments for land already planted to winter wheat.

4. To protect the business community in rural areas, no more than 60% of the tillable acres in any one farm should be diverted under the RAP or PIK programs.

5. To minimize the effect on market prices, the payments in kind should not be made until after the 1983 harvest and then spread over a 5 month period.

6. The payments in kind should not be included under the $50,000 payment limitation provision .

7. The total amount of land diverted under the program should be determined by the Secretary - taking into account the amount of CCC stocks, the number of acres diverted under the RAP and the estimated disappearance of the crop during the ensuing year.

8. The farm should have the option of taking back grain stored under the regular loan program, the farmer-owned grain reserve or payment in kind from CCC owned grain.

9. Adequate measures be taken to protect the interest of tenants and sharecroppers.

Mr. Chairman, the National Grange needs more information regarding the stock reduction and conservation program before we can go beyond just endorsing the concept. It looks as if it has promise but more information on program details are necessary before we can make a final judgement.

This concludes our statement Mr. Chairman. I will be glad to respond to any questions you or members of the subcommitte may have.

Thank you.

STATEMENT OF BRUCE R. HAWLEY, ASSISTANT DIRECTOR, WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation, the nation's largest voluntary organization of farmers and ranchers, appreciates this opportunity to present its recommendations for change concerning the farm price support and related export programs.

This hearing is timely and represents responsible action by this subcommittee, as farmers and ranchers complete one of the worst years of net farm income caused by abnormally large supplies, weak demand, and resulting depressed prices.

Existing farm program statutes have resulted in outlays of $12 billion for agricultural support in 1982. These costs resulted from a combination of outright purchases of surplus dairy products, deficiency payments to farmers, and new and outstanding CCC nonrecourse loans. The prospects for 1983 are even more staggering, with an outlay of as much as $15 billion estimated.

As net farm income continues at its depressed level against the backdrop of stringent federal budget conditions, solutions are sought for what has become a complex, and often very political problem, using the tools available in the price support programs.

The Congress and Secretaries of Agriculture have attempted to use loan rates as "marketing tools," target prices as "income protection", and the farmer-owned grain reserve as a mechanism to "store our way to prosperity." None of these programs has succeeded in improving or stabilizing farm income. On the contrary, these basic tools have distorted the market signals from agricultural production. They have resulted in continued overproduction of the basic commodities. These farm program tools are sometimes used as political footballs to convince constituents that the programs are good for them, and that those who offer them are worthy of reelection.

Farm Bureau is pleased to present a number of specific recommendations based upon the policy of our voting delegates, and recent actions by the AFBF Board of Directors. Our recommendations include:

(1) Implement Farm Bureau's "Freeze and Fix" program (copy attached), including a legislated three year freeze on all loan rates and target prices.

Loan rates and target prices are already excessive. A freeze on loan rates will assist efforts to expant demand by not increasing floor prices out of line with market clearing prices while the artificially high incentive to produce will be curtailed. This will help reduce both ending stocks and potential government outlays.

(2) Prohibit the entry of any commodity into the farmer-owned grain reserve prior to that commodity

moving into the nonrecourse loan program for the full nine-month duration.

(3) Establish "producer option" release levels for the farmer-owned grain reserve. These price triggers would be lower than current release prices, and would serve as prices at which producers could remove grain without penalty, or have the option of leaving the grain in the reserve and continue to collect storage payments.

Implementing (2) and (3) would result in a more market oriented farmer-owned grain reserve. Since producers would be required to use the CCC nonrecourse loan first, the reserve would become the mechanism of last resort, as it should be. Guaranteed reserve entry at higher loan levels should never have been used as an incentive for producers to participate in past acreage reduction programs. It has isolated grain from the market, discouraged usage, and encouraged expanded production.

(4) Repeal the current authority for the Secretary to implement a 50 cents per hundredweight assessment on all milk marketed, and substitute the program advocated by the Farm Bureau last summer. Farm Bureau's proposal is recognized as a responsible, viable, and cost effective means of correcting the current dairy problem. Farm Bureau's program reduces the unnecessary burden to taxpayers of billions of pounds of dairy product purchases annually. Farm Bureau proposes that the dairy price support be established on an annual basis, at levels corresponding to net CCC purchases for the previous 12 months. The indexing of the support level to CCC net purchases is shown in the attached table.

Although the focus of today's hearing is generally on the wheat, feed grain, rice and cotton sectors, Farm Bureau supports revision of the dairy program at this time since the current program is both unacceptable to producers and ineffective in dealing with overproduction and excessive government costs. In addition, the dairy sector is highly dependent on the feed grain sector; the two are directly related, and are indirectly tied to the farm programs and supply/demand situations of every commodity.

There are several bills now before the Congress which would repeal the current authority for dairy assessments and continue a $13.10 cwt. minimum support price. These proposals are short-sighted and irresponsible in not including a solution to the problem. They would result in increased exposure to the federal treasury, while not providing dairy producers with the appropriate market signal to reduce production.

The Farm Bureau proposal will result in an immediate signal in the form of a reduced price support to curb production, while ensuring a recovery in the price support in the out-years once supplies are brought in line with demand.

(5) Implement to the fullest extent all programs available to assist in and promote the export of U.S. agricultural commodities and value-added products.

Since this Administration has come into office, both the White House and the Secretary of Agriculture have provided no more than "lip service" and token gestures towards the idea of expanding the volume of U.S. agricultural exports. For more than two years, Farm Bureau has supported a CCC revolving fund for agricultural exports. The members of this subcommittee have agreed, as evidenced by the provision in the 1981 farm bill. However, the Administration continues to oppose the funding of this account. Farm Bureau reiterates its support for a $2 billion appropriation for the export revolving fund.

Since the late 1970's, no funds from the Export-Import Bank have been used to finance the sale of U.S. agricutlural commodities abroad. As part of a serious commitment to increasing exports, Farm Bureau recommends that the Export/Import Bank devote a percentage of its funds equal to the same percentage that agriculture accounts for total U.S. exports. S. 1852 by Senator Jepsen achieves the above goal by mandating use of Ex/Im Bank funds for agricuture.

Recently, attention has focused on the continued subsidization of agricultural exports by the European Community. Farm Bureau President, Robert Delano participated in the recent GATT ministerial meetings in Geneva, which resulted in very little agreement. It has become obvious that if the U.S. is to recover many of the third country markets which have been confiscated by the European Community, some form of subsidization of our exports or dumping of surplus stocks on the world market will be necessary. Farm Bureau recommends that CCC stocks be used for this purpose thereby putting actions behind the countless words that have been thrown across the Atlantic to the Europeans.

Significant quantities of grains and dairy products could be liquidated on the world market at the expense of the European Community. It is unlikely that there would be need to continue this practice for any long period of time once the Europeans realize that the U.S. is seriously dealing with the situation.

Contract sanctity is the last area of concern for the agricultural export situation. Farm Bureau strongly supports the bill introduced by Senator Lugar S. 2357 which ensures the sanctity of all agricultural export contracts for a period of six months, except in case of war. This measure represents valid contract sanctity legislation. Its provisions cannot be nullified by a declaration of national security or emergency conditions. Such legislation, if enacted, would serve to strenghten U.S./Soviet ties in relation to grain trade. Farm Bureau recommends that this Subcommittee consider amending any farm program legislation to include the provisions of the Lugar Contract Sanctity bill.

The Administration for several weeks has been considering a form of "payment in kind" program to be used as an additional incentive to producers to participate in acreage reduction programs on the basic commodities. Farm Bureau has participated in a number of meetings with Administration officials, and has encouraged further analysis and consideration of this idea. Until this time, there have been no specific details relating to the proposal. For that reason, the Farm Bureau is not prepared to grant across-the-board support for any payment in kind program which may be developed.

Prior to any final determination with regard to such a program, a number of questions should be answered and provisions refined. What percentages of land would be utilized for acreage reduction program purposes? Should payment in kind replace or supplement cash diversionary payments?

Should there be minimum and maximum percentages? Would farmers be allowed to remove their entire crop acreage from production in exchange for compensation under the program?

How would payment in kind be made to producers who may farm in regions of the country far removed from where the commodity is stored? Should farmer-held reserve grain be used for payment in kind?

Any "payment in kind" program which is implemented must provide adequate economic incentive for producers to participate. To reduce production, it is necessary to reduce the number of marginal acres from production and to assure that these are productive acres. The exchange rate for the commodity, and the volume of the commodity must be sufficient for the farmer to consider that option to be a more profitable alternative than producing.

Whether the program is feasible may also depend on the producers being willing to accept the commodities in lieu of a cash payment. Experience in the early 1960's demonstrated that producers would rather have the cash than the commodity. Perhaps they recognized the problem with dumping CCC stocks on the market via the producer, which may serve to depress current market prices for the current crop. However, this may be necessary for the long range goal of reducing carry-over stock.

Farm Bureau would also like to take this opportunity to comment on S. 3074, by Senator Cochran, which proposes major farm program changes for 1984.

Senator Cochran proposes that the Secretary of Agriculture be mandated to implement a minimum 15 percent acreage reduction program for the 1984 crops of corn, wheat, cotton and rice, with 50 percent of such reduction being in the form of a paid diversion. Considering the current supply situation, and the slight increase in carryover stocks for 1983, it is not out of line to consider a requirement for 1984. The past several years, unfortunately, have demonstrated that the Secretary of Agriculture is unwilling to implement paid diversion programs on his own. In that regard, this provision is appropriate. Even if a disaster should occur, with widely dispersed production, the voluntary nature of producer participation in this program will provide the necessary safety valve to allow the United States adequate supplies. If such a program is implemented for 1984, Farm Bureau supports utilizing payment rates not less than those implemented in 1983.

In commenting on the payment in kind program included in the bill, Farm Bureau is pleased that the legislation authorizes the Secretary to implement such a program, rather than mandates such action. This is wise, since the program is still under study, and not all economic ramifications have been explored. The provision requiring the Secretary to consider the economic base of local communities when implementing the program is important, although Farm Bureau does not expect that producers will enroll in such programs to the extent that local communities would be threatened.

Farm Bureau opposes the increases in the loan rates proposed by Senator Cochran. Such increases are not justified and actually will serve to discourage domestic usage and price U.S. commodities out of the world market. Additionally, a loan rate hike is likely to increase forfeitures of commodities to the Commodity Credit Corporation, as loan rates are currently too high in relation to market prices.

Farm Bureau is very concerned that if loan rate increases were implemented while a PIK program was established for agricultural exports, the CCC would be set up as the middle man to export U.S. agricultural commodities. If the CCC did not export the commodity, it would pay it back to the farmer for reducing his acreage, only to depress prices and promote additional forfeitures back to the government agencies.

Loan rate increases tied to a PIK program would represent a serious threat to maintaining agricultural markets. As previously mentioned, Farm Bureau supports a three-year freeze on all loan rates and target prices. In our view, this will provide a better chance of reducing current stocks as market prices strengthen.

The provisions of Senator Cochran's bill relating to demand expansion in foreign markets in certain respects may reflect the recommendations we have presented. Although the commercial market bonus plan proposed in the bill represents an agricultural export subsidy, Farm Bureau believes that it is time to use such tools to regain foreign markets recently lost.

Farm Bureau recommends that such a commercial market bonus plan be targeted to third country markets, particularly those which have been affected by the unfair trade practices of the European Community. Unfortunately, there is an inherent flaw in such a program--the possibility that value-added products made from U.S. raw commodities may flow back to the United States and depress the markets for the U.S. processing and manufacturing sectors. S. 3074 adequately addresses that problem by providing an equivalent subsidy to the domestic industry in such cases where imports into the United States put that industry in an unfair competitive position.

Farm Bureau supports the use of CCC inventories in a direct title transfer to the P.L. 480 program. This alleviates the necessity for additional P.L. 480 funding, while at the same time using surplus carryover commodities. Farm Bureau also supports the use of CCC inventory for direct donations, and any other program under which such stocks can be legitimately moved on the world market.

Farm Bureau recognizes that there is no easy solution to the current economic ills of the U.S. agricultural sector. It is recognized, however, that agriculture is not alone. Virtually every other manufacturing or business sector of the United States is in serious economic distress.

It is important that the Congress continue to focus on the "disease" rather than the "symptoms". Today we have discussed the symptoms, but the fact is the permanent solution lies in a responsible Congress implementing a responsible balanced budget, terminating the years of deficit spending which has been primarily responsible for the decade of inflation leading up to this serious farm situation.

In this regard, Farm Bureau will continue to support efforts to reduce the size of the federal government, not just slow its growth. In addition, the Farm Bureau will continue to support efforts to balance the federal budget, with the ultimate goal of bringing fiscal and economic stability to the country.

Thank you.

STATEMENT OF DAVID SENTER, AMERICAN AGRICULTURE MOVEMENT, INC.

Mr. Chairman and members of the committee,

I appreciate the opportunity to represent the American Agriculture Movement, Inc. before the Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices on this matter of importance. I want to thank the Chairman for seeing the need to pursue this matter now, instead of waiting until the regular session in late January.

I read with relief Senator Cochran's proposed bill as it relates to loan rates and target prices. We feared an attempt would be made to eliminate target prices and lower loan rates. We were pleased this is not the case, but do take exception to the small increases for the loan rates.

The American Agriculture Movement, Inc. feels the loan rate should be increased to the target level for each commodity. Farmers would much prefer their payment come from the market place than a direct government payment. The increase in loan rate would lower the exposure for larger direct payments, and move the outlays into recoverable costs through the commodity loan program. There needs to be a closer evaluation of ratio's in the new proposal to ensure the proper balance to prevent commodity shifts and undue pressure on one commodity.

There are several problems with 'in kind payments' that cannot be ignored. The amount of grain dumped onto the already depressed markets. The only way farmers can create cash flow is by selling the 'in kind' product. Where will the commodity be located? What will the storage cost? Can the producer leave the product in place? or, Will he have to take delivery on it? Is this a move to stop paid diversion or target prices? All these questions must be answered to fully understand the proposal.

U.S.D.A. can do anything constructive or destructive in implementing a program. Congress must be very careful in drafting such changes to insure that the intent of Congress be carried out.

One thing is certain, we must have 'supply management'. If the 'supply management' policy had been in place, we would not be facing these problems today. AAM supports mandatory supply management. Without this, it will be very difficult to administer and/or operate a positive workable program.

The AAM would like to make the following Suggestions:

1. There should be an increase in the minimum set-aside for each crop for 1984. A twenty five percent (25%) minimum set-aside for all commodities should be put into place. The paid diversion, and pre-deficiency payments should continue as in the existing program, with the only 'in kind' payment on any additional set-aside over and above the minimum.

2. Increase the loan rates to the target price levels on all commodities.

3. Add soybeans to the provision of the bill.

4. Maintain the ratios on all commodities to keep them in balance.

5. We do not feel, U.S. produced grain should be given away to foreign customers. It is bad enough to sell below the cost of production, but to give away our natural resources would be an insult to America's producers. The only exception would be, if direct foreign aide monies could be replaced with farm commodities. The State Department could purchase the commodities from CCC, then deliver this aide to the receiving country.

Next, I would like to discuss an idea for all of us to look at. Secretary Block has discussed the idea of a no plant, entire base, or . farm set-aside. As an additional offering if the Department made available this 'no plant' provision with 'in kind' payments to borrowers unable to get additional financing from lenders, several things would happen.

(a) These producers would not have to borrow any additional money for the 1983 crop. There would be no interest due on a loan. The 'in kind' payment could be marketed and used to pay land payments, equipment payments, etc. to maintain the operation for the 1983 crop year.

(b) This would prevent used equipment from being forced onto the already depressed equipment markets, prevent land from devaluing by forcing more onto the auction block, and save many family farm operations.

(c) This would be a big help to FmHA, who are struggling to maintain its borrowers. This could also help PCA's Federal Land Bank, and private lenders.

(D) Another benefit, would be the additional land idled which will draw down on stocks, which will lead to higher prices. Higher prices will insure many that are in an unfinanciable poistion now, the opportunity to refinance their business' for 1984 crop.

I bring this idea to this Subcommittee for your reaction. This solution may be the only hope to prevent forced liquidation, and even forclosure for thousands of farmers across this nation during the coming months.

Thank you for your consideration on our proposals.

The AAM recognizes the importance of keeping all major crops equally priced so as to prevent farmers switching from one crop to the other. Their avoiding expenssive machinery outlays and the problem of over production in certain areas thus depressing prices. Over the years there has been ratio's established between certain crops at which we will match this switching from crop to crop due to prices. These ratio's are as follows;

beans to corn - 2½ to 1

wheat to corn - 1½ to 1

beans to cotton - 10 to 1

(due to the lack of history of rice, there is no ratio to corn. We feel that a 2 to 1 ratio is in order.)

Note should be made that all feed grain are already indexed to corn.

The following are two tables showing what loan rates would look like when they are indexed to corn using present loan and target prices.

Index using loan		Loan in 83
corn	2.65	2.65
wheat	3.97	3.65
beans	6.62	5.02
cotton	.66	.55
rice	5.36 bushel	3.63 bushel

Indexed to target		Target in 83
corn	2.86	2.86
wheat	4.29	4.30
beans	7.15	NA.
cotton	71½(was target in 82)	.76
rice	5.72 bushel	5.18 bushel

STATEMENT OF SHIRLEY S. CULLEY, MEMBER, BOARD OF DIRECTORS COTTON WAREHOUSE ASSOCIATION OF AMERICA

Thank you, Mr. Chairman and Members of the Committee. I appreciate the opportunity to testify before you today. My name is Shirley Culley, and I am President of the Flora Compress & Warehouse Company, Inc., in Flora, Mississippi. I am appearing before you today on behalf of the Cotton Warehouse Association of America of which I am a member and on whose Board of Directors and Executive Committee I have served for the past three years. Accompanying me is the Association's Executive Vice President, Don Wallace.

The Cotton Warehouse Association of America is the major trade association representing cotton compress and warehousemen in all of the cotton-producing states from the Carolinas to California. After cotton is harvested and ginned, we, in the warehousing industry, are responsible for receiving, weighing, sampling, storing, compressing, and in some cases packaging, these bales until such time as they are shipped to domestic textile mills or ports for shipment to a foreign mill.

I am here today to discuss the initiatives being taken by you to improve the poor economic conditions in rural America and to give you our views on the Department of Agriculture's "Stock Reduction and Conservation Program." As the spokesperson for the Cotton Warehouse Association of America, I want to make it perfectly clear that we do not oppose the premise that increasing cotton stocks need to be brought into a more even balance with regard to supply and demand.

Although specific details on USDA's proposed stock reduction program are not public, it is my understanding that one proposal under consideration for cotton would reduce planted acreage by 40 to 50 percent of the 15 million bale base acreage over the next two years through a payment-in-kind program. It is unclear whether this payment-in-kind program would be made only from CCC-owned cotton or whether it would apply as well to cotton currently under the CCC loan. With regard to such a program, Mr. Chairman, I would like to bring to your attention some of the major concerns of the cotton warehousing industry.

First, we feel strongly that any acreage reduction, coupled with a payment-in-kind program, should be carried out in such a manner as to avoid creating havoc in the ginning, oil milling, and compress/warehousing segments of the cotton industry, as well as in the other areas of the agricultural community such as the fertilizer, seed, chemical, fuel, farm equipment, and transportation industries. In addition, there are numerous small, rural businesses that depend on a balanced agricultural economy for survival. In our opinion, this 40 to 50 percent acreage reduction over a two-year period would cause a ripple effect that could be devastating to rural communities such as mine. We are glad to note, Mr. Chairman, that your bill contains a provision directing the Secretary of Agriculture to take special precautions, by limiting the total acreage diverted from production under such a program, to assure that the economies of counties and local communities are not adversely affected. We applaud you on your foresight to include such a provision and urge you to make sure that any program the Department implements does not place an undue hardship on our rural communities.

In 1973, the cotton warehouse industry had a CCC-approved storage capacity of approximately 22 million bales. Today, this capacity has been reduced to 18 million bales, and with a large acreage reduction for 1983 and 1984, a further decrease in storage capacity can be expected. We feel a smaller acreage reduction, phased in over a longer period of time, would be more beneficial to the overall and long-term well being of all segments of the cotton industry and the agricultural community. Cotton is uniquely different from other commodities and should be treated accordingly. It's true stocks have been rising in the past couple of years, but they are far below the excessive surplus levels of some of the other commodities. It should be pointed out as well that cotton held in storage over a long period of time does not deteriorate in quality as fungible commodities do.

Had the flooding we are presently experiencing in the Mid-South occurred a month earlier, half of the cotton acreage in my area would have been destroyed. Thus, we need to guard against a drastic reduction in acreage so that such natural catastrophes do not prevent us from having an adequate supply of cotton. In our judgment, anything less than 10 million planted acres for 1983 and 1984 could certainly lead to the concerns we have expressed.

Another concern deals with the cotton export market and foreign production. One of our most important agricultural export commodities is cotton. With a large acreage reduction, we believe this market will be directly affected. In the long run, by drastically reducing domestic cotton production, the United States runs the risk of permanently losing a large portion of this export market. This happened last year with regard to wheat. When U.S. producers reduced their acreage, foreign producers in countries such as Canada and Australia increased their planted wheat acreage for the purpose of gaining a larger share of the world market.

Although I am appearing before the Subcommittee as a spokesperson for the Cotton Warehouse Association of America, I am also personally involved in agricultural-related businesses. My company stores and sells bulk fertilizers, chemicals, seeds and feeds. As a small businesswoman in a rural Mississippi community, I want to voice my sincere hope that the concerns I have expressed here today will not become a reality. Mr. Chairman, and Members of the Committee, I urge you to seriously consider the consequences and the effects of such a program, not only on the cotton warehousing industry, but numerous other small businesses directly involved in and dependent upon a strong agricultural economy.

STATEMENT OF SAMUEL T. REEVES, PRESIDENT, AMERICAN COTTON SHIPPERS ASSOCIATION

Mr. Chairman, I am Samuel T. Reeves of Fresno, California. I am President of Dunavant Enterprises, Inc. I appear today in my capacity as President of the American Cotton Shippers Association. Its membership markets over 80% of all U.S. grown cotton and trades about one-third to one-half of all world exported cottons. Present with me are Rudi E. Scheidt, President of Hohenberg Bros., Memphis, Tennessee, Chairman of our National Affairs Committee and Mr. Neal P. Gillen of Washington, D.C., Vice President and General Counsel of the American Cotton Shippers Association.

Our testimony today will review the current world and domestic cotton situation and suggest guidelines that the Administration and the Congress should pursue in order to improve the U.S. cotton economic situation and to prevent its further deterioration. At the outset let me state that cotton must be clearly distinguished from wheat and feed grains. Our problems while no less complex are different in scope.

Beginning in 1970, U.S. cotton production and marketing transformed from a government-orientated, government-controlled and government-financed program to a world market-oriented system with a minimum of government controls and almost no government payments. On average, production and consumption rose during this period. Most important, farm assets and income rose dramatically.

Overconfident with our success in these areas, we gradually allowed ourselves to dilute the basic premises of a market-oriented system. Gradually we reverted back to rigid minimum loan rates, unrealistic loan differences and target prices unrelated to world market price. We objected to the retention of the concept of a minimum loan in our testimony to the committee in 1981, noting that it "must be approached with caution, if we are to avoid the mistakes of the past when minimum loan levels subsidized the production of foreign growths of cotton." We now find ourselves in the unflexible and vulnerable position of only being able to market a percentage of U.S. cotton at world prices. The situation has been further impacted by two consecutive years of above-average yields in the U.S. matched by increased foreign production and yields. The strength of the U.S. dollar in the last three years has not only been a deterrent to export, but has been an encouragement, particularly in the Socialist and "soft currency" countries, to increase their production. We now find ourselves the residual suppliers of cotton. We will remain in this position unless positive measures are adopted. Some of us recall the helplessness we felt during the late 1960's as we create a similar situation today.

The World Cotton Situation

The anticipated world carryover on August 1, 1983 will be about 30 million bales. An acceptable norm would be approximately 21 million bales or about 4 months' supply. World production for the year 1982-83 will be approximately 68½ million bales, with an offtake of approximately 66 million bales.

Two months ago I was a U.S. delegate to the meeting of the International Cotton Advisory Committee in Cairo, Egypt, attended by almost all major cotton producing countries of the world. Of the 49 countries in attendance, 47 indicated that next year they would either increase or maintain their cotton acreage.

U.S. cotton must attempt to compete in a world market-place with 74 cotton producing nations, of which fourteen produce approximately 90% of the world's cotton. We simply cannot escape the fact that loan levels designed to primarily benefit U.S. producers, can in reality equally benefit foreign producers, particularly those in centrally controlled governments who have more flexibility to rapidly increase plantings and take maximum and immediate advantage of our mistakes.

A good example is China. Three years ago they imported approximately 4 million bales of cotton of which over half came from the United States. This year imports might be less than 1.5 million bales of which almost none will come from the United States. They have announced in the last week they continue to plan on expanding their cotton production 4% to 5% per year and in the near future will be a net exporter of cotton. I realize that verbalized expectations may not result in concrete reality. But when I look at China's statistics over the last 5 to 6 years, I must listen seriously to their words.

The U.S. Situation

1. Anticipated carryover on August 1, 1983 will approximate 8 million bales. A normal carryover would approximate 3.5 million bales.

2. There are approximately 3 million bales of 1980-81 and 1981-82 crop presently in farmer-held loans. It is anticipated that an additonal 2 to 2.5 million bales of the 1982-83 crop will find its way into the loan.

3. In three years domestic consumption has decreased 19%, in 10 years 32%. In three years exports have decreased 42%, falling back to their level of ten years ago, bringing our exports down to approximately 5 million bales in the current marketing year.

To summarize, there is an oversupply of approximately 9 million bales worldwide of which approximately 4.5 million is in the United States.

Legislative Resolution of the Problem

To resolve the problem, it is essential that cotton be priced at levels which will assure its sale and consumption without adversely effecting the income level of U.S. cotton producers, and at minimum costs to the U.S. Government.

We recommend that the following changes be made in the current law:

First, the minimum loan concept must be discarded. The concept did not have industry support when it was hastily conceived by House conferees in the concluding minutes of the House-Senate Conference on the Emergency Agricultural Act of 1978. In better times and in the spirit of compromise, the industry requested its retention in the current bill. The price support loan level should be established at a level of 90% of the world price.

Second, the target price concept must be reconsidered. By establishing the target price at levels unrelated to market price or production costs, efficient producers are penalized, unnecessary production of undesirable growths is encouraged, and the concept of payment limitations precludes effective program compliance at times when carryover stocks reach excess levels.

Third, the restrictive resale policies of the Commodity Credit corporation preclude the sale of CCC stocks. Current law requires that cotton not be sold at less than 115% of the loan rate for SLM 1/16 inch adjusted for current market differentials reflecting grade, quality, location plus reasonable carrying charges. Were it not for this factor, the Department would have the flexibility to address the current problem of an oversupply of undesirable and overpriced qualities. Should this cotton be taken over by the CCC, the price would be raised by 15% precluding any possibility of sale absent a change in resale policy. Unable to sell the cotton, the Department's only alternative is to barter the bales for additional program compliance. Were the Department to allow the stocks to remain in CCC hands, approximately three years after takeover the total cost of carrying the cotton could exceed the actual market value of the stocks. The need to change the resale policy for cotton is compelling and too obvious to ignore.

Realizing that the passage of farm legislation is a delicate, increasingly difficult and time-consuming process, we fully understand that our suggested changes in the current law, even if agreeable to the industry, the Department and the Congress, cannot be implemented on a timely basis to deal with the problem at hand.

Administrative Resolution of the Problem

The Department has indicated it will act, possibly by January 1, to implement modification of the announced 1983 cotton program through the use of Payments-In-Kind to accomplish additional reductions in planted acreage.

Cotton's problems, while significant, pale in comparison to those of grain, therefore, we seriously recommend that full compliance in the announced program, of 20 percent voluntary reduction plus 5 percent paid diversion, be the primary objective. Additional reductions must be approached with great caution if we are to avoid the following negative effects of an excessive acreage cutback:

1. Reduction of the desired qualities, depriving U.S. and foreign mills of cotton which U.S. producers have reliably supplied in significant quantities over the last 10 years.

2. Increase the prices of U.S. cotton with the possible result that cotton in demand and currently selling will receive an additional premium, while the undesirable qualities in excess supply will demand a higher price even though in the current market they are deemed to be overpriced.

3. U.S. export markets being forfeited to foreign producing countries capable of supplying competitive growths.

4. Foreign production increasing and U.S. stocks of undesirable qualities continuing to build.

5. Polyester which is also in surplus, and priced at levels below comparable cottons, replacing cotton in some uses, and blend ratios becoming more negative for cotton; and

6. Local communities being adversely impacted as suppliers, processors and service industries experience reduced volume. In an environment of record high unemployment we must avoid further economic injury to related industries such as ginning, warehousing, seed crushing, and transportation. The severe reduction in this years Texas crops reduced cash receipts to farmers by $758 million and related industries by $1.5 billion.

The P.I.K. Program

As collateral for the program of full compliance, the 1980 and 1981 loan stocks should be utilized.

The PIK program for cotton must strive to move the cotton in surplus to market at world prices. We recommend that the first purchaser of the cotton compensate the farmer the market price plus the value of the PIK certificate. The buyer would then utilize the PIK certificate in exchange for loan stocks from producers or stocks from the CCC. In this manner the producer complying with the program would receive a price incentive and U.S. cotton can be sold at world market prices to U.S. and foreign mills unencumbered by the additionality factor. This method of operation moves our stocks to consuming markets thereby moving the burden of acreage reduction to our foreign competitors.

This type of PIK program will pull existing stocks through the market system without great dislocation to related segments, reduce supplies, and strengthen prices in the longer term.

The administrative details of such a program must await basic program decisions, but based on our prior experience with such programs in the 1960's, we are confident that a suitable program can be developed and implemented.

In conclusion, ACSA would suggest that cotton should be sold at world prices which would increase the U.S. export position and deter world production through the greatest deterrent of all — price.

Finally, we wish to compliment this Committee for acknowledging the problem and your willingness to face the hard realities, and, Senator Cochran, we especially commend you for the preparatory work that you and your staff have engaged in over the last two months leading up to this hearing.

Thank you for permitting us to present our views.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT
THE RICE MILLERS' ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

My name is J. Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA). Established in 1899, the RMA represents independent rice milling firms and farmer-owned cooperative rice mills, with facilities in Arkansas, California, Florida, Louisiana, Mississippi, Tennessee and Texas. RMA members process all of the rice produced in the United States and sell significant quantities of rice directly to the export market.

We appreciate this opportunity to comment on those parts of S. 3074 that address the rice industry's current problems. The introduction of S. 3074 initiates badly-needed congressional consideration regarding the U.S. agricultural crisis, which, in our opinion, is about to assume monumental proportions.

The U.S. rice industry, which faces its worst marketing outlook since 1958, is now in a period of severe economic depression. Rough rice prices are low. Rice farmers are in serious trouble. Both independent and farmer-owned cooperative rice mills are cutting-back milling schedules or simply closing down. Currently, the rice milling industry is operating at only about 60% of capacity.

Exports are the lifeblood of the U.S. rice industry. It must annually sell more than 65% of each year's rice crop to the export market. Today, U.S. rice is non-competitive in the world market. For example, good quality Thai rice has been selling for $130-150 per metric ton less than comparable quality U.S. rice. Current world price levels are below U.S. support prices and producers' costs of production. The competitive position of U.S. rice exports has been adversely affected and eroded by world recession, the Iraqi-Iranian war, high interest rates, and the escalating value of the U.S. dollar. Against this background of hostile economic conditions, U.S. rice is forced to compete not only with low-priced foreign government sellers, but also against heavily subsidized rice from such sources as the EEC, Japan and Taiwan. In 1982, these three areas alone will dump with impunity about 1.45 million metric tons of rice into a thin international market. This represents over 11% of the quantity of rice traded annually in the international market place. In addition, the competitive position of U.S. rice has been negatively impacted on by the government export-sales policies of Pakistan, Burma and Thailand. These three countries account for over 40% of world trade. Their governments have the policy flexibility to directly sell their rice into the export market at whatever price level is necessary. It is impossible for U.S. rice to compete under these adverse circumstances.

We expect that the future U.S. rice export outlook will continue to deteriorate. Our projections indicate that in the absence of any export stimulation program, U.S. rice exports for the 1982-83 marketing year will total only about 2.0 million metric tons, and not the 2.7 million metric tons estimated by U.S.D.A. Such an export shortfall will force the Commodity Credit Corporation (CCC) to acquire under the price support program about 50-60 million cwt. of 1982-crop rough rice, at a cost of $400-490 million. When added to the 17 million cwt of rough rice already acquired from the 1981 crop, CCC rice inventories would equal almost half of the total rice crop produced in 1982. Aside from the large budget outlays for deficiency payments and loan forfeitures, it will be extremely difficult to fund adequate storage space for such extraordinarily large quantities of rice. If these financial and logistical dimensions are overwhelming, they simply become inconceivable when viewed as only the beginning of a cycle that will continue to worsen unless exports are stimulated.

Considering the predicament that the rice industry faces, the export stimulation thrust of S. 3074 is what the industry urgently needs to stabilize farm income, reduce free stocks and CCC inventories, and minimize budgetary expenditures. Our problems are in the export market, not in the domestic area. We need to move rice out of the country, instead of adding to domestic stock levels. The Secretary of Agriculture currently has the necessary authority under the CCC Charter Act to implement a payment-in-kind (PIK) export program similar to the export bonus provisions of S. 3074. Such a PIK export program was implemented by Secretary of Agriculture Ezra Taft Benson on December 15, 1958 during a similar period of commodity oversupply. The gap between U.S. and world prices was bridged by using CCC stocks. U.S.D.A., at that time, successfully used the CCC surplus to move the free stock surplus.

The PIK export program is simple in operation, having been tried, tested and found successful in accomplishing its objectives. It will cost nothing unless used, and will allow an orderly transition from non-competiveness to a competitive position.

We recognize that a PIK export program is essentially an export payment program. However, we believe that this is permissible under Article XVI of the GATT, if used to maintain an equitable share of the world market. As far as the rice industry is concerned, our primary objective is to maintain our traditional share of the world market which has been eroded by subsidized competition and predatory pricing policies of foreign governments. For example, the governments of Taiwan and Japan pay their rice farmers support prices that are three to five times world price levels. Consequent surpluses have been produced. Rather than face the internal political consequences of implementing acreage reduction programs, their surpluses have been dumped on the world market. Who bears the burden of dealing with the resultant oversupply? It is U.S. rice farmers, millers, exporters and taxpayers. While Taiwan and Japan continue to produce surplus rice and dump it into the international market, the United States reduces production, builds stocks and loses export markets. Such a policy on the part of the United States is short-sighted and regressive.

Mr. Chairman, we recognize that further adjustment is needed in the level of U.S. rice production. This will be done for the 1983 crop. However, for this industry to cope with subsidized competition and predatory pricing tactics, we need an export-oriented program such as the PIK export concept to serve as an interim measure that will restore our competitive position in the international market place. Acreage reduction and land diversion measures, as well as adjustment of the current loan rate, without an export stimulation program, will not resolve the rice industry's current crisis.

STATEMENT OF NITA GIBSON, PRESIDENT, COTTON POOL INC., OF TEXAS, SEMINOLE, TEX.

FORWARD

As Thomas Jefferson said, "Laws and institutions must go hand in hand with the progress of the human mind; as that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance to keep pace with the times."

The challenge of Jefferson's words, as they relate to my chosen field of agriculture, weigh heavy on me personally and have for several years. The goals as stated by Jefferson are attainable and I feel I have a personal duty to agriculture and to the American community in general to be a resourceful and innovative thinker.

It was in this spirit that I submitted a new innovation of recycling surplus commodities as a payment-in-kind to producers for reducing their planted acres to Everett Rank on October 28, 1982, to cotton producer groups meeting in Lubbock, Texas on November 10, 1982 and to the National Convention of WIFE at Denver, Colorado, November 11, 1982.

This new concept (PIK) has brought about a national debate among commodity groups, departments of government and members of Congress.

The debate has aroused an attitude of hope among our farmers, replacing a sense of helplessness that had immobilized them.

It is my personal hope that the various forces at work on the proposal will not overlook the dynamic nature and total ramifications of the concept that could serve agriculture in a positive way for years to come.

INTRODUCTION

American agriculture has the capacity to produce far more than the market will take at fair prices. Producer plans and government programs have failed to resolve this age old problem. The exercise of trying to outguess everchanging weather and fickle demand has wrecked the dreams and financial status of thousands of farmers while costing government billions of dollars.

In order to adjust supply to demand without severe contraction, it seems logical to recycle surplus stocks of agriculture commodities back to the producers as a payment-in-kind in exchange for their reducing production. This initiative provides the flexibility needed to properly address the problem of extreme year-to-year swings in production and demand.

PURPOSE

To provide an incentive for the producer to reduce production; to provide a means by which government can reduce costs; and combining the two onto a package that is attractive to both.

In this atmosphere success is possible and should bring into balance a variable supply/demand posture, fair prices to the producer with less liability to government.

There shall be no allowance of "windfall" to any participant involved in carrying out of this proposal. The overriding intent must be to bring relief to: (1) producer and (2) government; therefore restoring to a viable posture all segments of agriculture.

COMMUNITY IMPACT

What to do with the surplus of agriculture commodities has become one of the biggest unsolved questions of national economic policy. The bottom line is it behooves every political subdivision to support efforts to resolve this problem. Preoccupied with their own private affairs, large numbers of Americans lack any sense of identification with the fact that agriculture is this nation's largest industry . . . largest employer.

However, they do identify with two things: (1) the fact that our farmers provide the most abundant food and fiber supply in the world and (2) with the costs incurred by government on surplus agriculture commodities. It is reasonable to conclude that the overriding mandate of the public in this matter is to preserve the food and fiber system and reduce costs to government. Therefore, a temporary economic slowdown as a result of farmers bringing supply into focus with demand, would have little adverse impact to the community in view of the economic strength gained in the long term with the restoration of the agriculture industry to a vigorous, viable posture. In fact, the enhancement of the general economic base of most communities would be realized by the monies generated by the payment-in-kind. Various handlers would look to the long term advantages.

POLITICAL IMPACT

The national Constitution, particularly in those sections which deal with the powers of Congress, shows the stamp of a strong will to create a nation economically powerful and united. There is every reason to suppose that this will was accompanied by a feeling that such economic union would be beneficial to the public generally.

In the broad public view, the role of government, is to act effectively in correcting situations that could adversely impact the economic and general well-being of American citizens.

From this point of view, the public would welcome a new initiative that would reduce the monetary liability of government, restore the resiliency of the agriculture industry and do so effectively.

In summation, the political pluses far outweigh the opposition.

IMPACT ON FINANCIAL INSTITUTIONS

The drastic drop in the value of farm machinery and land values has reduced collateral to the point that farm loans are hard to come by. Cutback, in some cases quite severe, on operating loans seems to be the policy of most financial institutions for 1983. This proposal would dovetail nicely into the present financial stress of both banker and farmer. Reduction in acres would reduce amount of dollars needed which would be music to the ears of most bankers.

IMPACT ON COMPLIANCE

Our present dilemma of the highest costs to government and the lowest net income to farmers in fifty years should tell us that weak compliance in addition to setting-aside our least productive land is a disastrous policy. Correction is overdue. We must not repeat the senseless outlay of negative dollars. Sufficient reduction of production will come only by two ways: (1) mandatory set-aside (2) or an incentive attractive enough to the farmer that he will comply.

If the basic provision of this proposal are kept intact success of the goals of government and farmers is imminent. Acre reduction under this plan would have support of landlords thus enhancing more compliance.

PRICE IMPACT ON 1982 CROP SALES

This proposal calls for using the projected 2.9 million bale CCC surplus stocks as a payment-in-kind to the producer that agrees to set-aside, in addition to the announced 20 percent set-aside, an additional 30 percent. These two actions in concert should have an immediate impact on the price of the 1982 crop. An affirmative decision by government on this proposal should improve the price of cotton sufficiently to reduce the 21 cent deficiency payment . . . if not remove it entirely.

GENERAL PROVISIONS OF THE PROPOSAL

The 55 cent loan level for SLM 1¹⁄₁₆ should remain intact for 1983. The target price of 76 cents should remain intact for 1983. All cotton producers with a cotton base would be eligible to participate. Each producer's actual yield or adjusted yield, whichever is higher, would be used to compute payment. The $50,000 payment limitation would not apply.

The 1983 loan would be used as a base to establish the value of the surplus CCC cotton stocks conveyed as a payment-in-kind to the eligible producers. All producers that have a cotton base and agree to set-aside, in addition to the announced 20 percent set-aside, and additional 30 percent set-aside, shall be paid 45 cents per pound times yield times the 30 percent additional acres.

For example: using 1,000 cotton acre base (500 pound yield)
.20 percent announced set-aside = 200 acres—no pay
.30 percent additional set-aside = 300 acres—paid as follows:
.300 acres X 45 cents X 500# = $67,500
Plant the remaining 500 acres to cotton.

The established value payable to producers under this proposal shall be made in clear title cotton in an amount equal to the dollar computation. In the event that the CCC surplus cotton stocks are insufficient to fulfill all payments-in-kind to the cotton producers, then they shall be given clear title to any row crop commodity in surplus. (For example; wheat, corn or soybeans). Payments-in-kind would be paid to producers in December 1983. We recommend that the present cotton base acres be frozen. Producer would be eligible for the target price on all planted acres for harvest.

We recommend that the payment-in-kind concept be used in those years when the carryover is in excess of 3.5 million bales. The percent of acre reduction should be set according to the amount of carryover in excess of 3.5 million bales. We recommend attention be given to the special import quota so that it would not trigger during the life of the payment-in-kind program. We encourage USDA, exporters and merchants to sell the payment-in-kind stocks to new customers . . . if we fill our normal channels with surplus stocks at below market value, our primary goals could be deterred.

In the provision that states, "in no event shall the national program acreage be less than ten million acres," we recommend that "wildcat" (planted acres with no base) be taken into consideration as a part of the ten million acre floor.

We take the position that the CCC sales price restrictions can be circumvented by recycling surplus stocks of agriculture commodities back to the producer as a payment-in-kind in exchange for a service beyond normal circumstances, namely reducing additional acres.

All provisions of the 1981 farm bill not otherwise addressed in this paper shall apply.

PAYMENT-IN-KIND PROCEDURE

We suggest the establishment of a commodity bank (in name designation more than establishing a new entity) for the purpose of expediting the PIK program.

It could be a liaison between CCC and ASCS. Kansas City would be the logical "clearing house" or bank

We suggest that all eligible surplus commodity stocks be indexed in a manner attractive as a sales tool. For example, in cotton it should be indexed to identify grade, staple, micronaire, weight, location and other value description.

Indexing in this manner would permit merchants to assemble the cotton into even-running lots for concentration and delivery. (This process is very valuable to the sale of cotton and should enhance its value as it passes from the commodity bank to the merchant.)

Upon the announcement by the Secretary that a PIK program is available for whatever designated commodity, a sign up period will be designated for farmers to sign a contract agreement with government.

Upon completion of the sign up period the secretary shall project the total amount of CCC surplus stocks required of each commodity as payment-in-kind payments.

Secretary shall channel required commodities to the commodity bank. These stocks shall remain in escrow until the proper release date. We suggest December 1983 for cotton.

When all set-aside and other compliance requirements are cleared by the local ASCS office, then all eligible producers will be advanced their payment-in-kind by the commodity bank. (See explanation #1)

With the release of the commodity by the producer back to the commodity bank, bids shall be opened for purchase. We recommend and arms-length transaction between each participant in this process.

We insist that all bids shall not be less than the payment-in-kind advanced to the producer, plus proper user fees to pay cost incurred by government. (See explanation #2)

There are two major compelling reasons for this requirement: (1) government must recover costs (2) a lower price would weaken the price structure of all other cotton on the cash market; depression of the cash market level would automatically enhance government's liability on target payments.

All monies recovered by the selling of payment-in-kind stock shall go to government. In the event prices in the marketplace should accelerate, we stress the importance of government raising the base of 45 cents to the appropriate level for reasons stated above.

The only exception to the 45 cent base would be in the case of "out of condition" stocks. Salvage obligation would be incurred by government.

All grades, qualities warehouse locations and other value factors would be reflected by averaging the loan base. (See note No. 1)

Caution should be exercized to make sure there will be no "Windfall" by any participant in the processing of payment-in-kind stocks.

EXPLANATION NO. 1

If certificates are issued to producers it would completely destroy the purpose and intent of this proposal. The issuance of certificates would turn into "loose stocks" of cotton that would under cut the price structure of cotton, fill our normal pipelines and destroy our chances of recovery. Additionally, government cannot afford, administratively or financially, to permit this to happen.

Therefore, we insist upon concept of the establishment of the commodity bank concept. The peculiar features of cotton put it into a category all of its own. Class and grade characteristics are multiple. Indexing the cotton into a weighted loan average in order to arrive at a price per pound would be necessary in order to pay the producer on a dollar for dollar basis.

Also, indexing into even-running lots would be necessary to enhance the attractiveness for sales purposes. Therefore, we insist upon the concept of the establishment of the commodity bank concept. We suggest that only a certain percent of these surplus stocks be allowed to move into the market stream each month. This too, makes it imperative to establish a commodity bank.

EXPLANATION NO. 2

We have covered in other parts of the paper the importance of the 45 cent base as a payment-in-kind. Please note examples attached showing various yield levels. Keep in mind the costs to government, using surplus stocks, could be calculated for quick evaluation, by using the national average weight of cotton; namely, 503 pounds. Also, keep in mind, under this proposal the target liability would be reduced from the high of 80 percent of planted acres to a low of 50 percent of planted acres.

Now, to the reference of proper user fees.

All check-off obligations were met on these surplus stocks of cotton with the exception of marketing fees payable to marketing co-ops and marketing associations. These groups have invested thousands of dollars in office expense in preparation to market the cotton—and the sale never came . . . therefore we purpose a recovery amount be allowed. Estimate from $1.50 to $2.50 per bale.

Additionally, a user fee should be allowed for government to recover costs incurred to expedite the entire process of moving this cotton. Estimate 2 or 3 cents a pound.

These encumbrances could total to 5 cents a pound, making the sales price out of the commodity bank at 50 cents per pound. The 50 cent level compares to approximately 65 cents under the 1981 CCC sales price restrictions.

This price level should move the old stocks into the marketplace without adverse impact on the new crop particularly if only a certain percent is allowed into the market each month.

Examples of Various Yields

- All examples use 1000 acre cotton base
- All examples use two plans
- All examples use 55 cents loan level as sales price
- All examples use 21 cents maximum target payment

On 300 pound yield farm

Plan #1 - 20% set-aside as announced
200 acres set-aside
800 acres planted to cotton

Target income - 800 x 300# x 21¢ = $50,400.00 (allow 50,000.00
Harvest income - 800 x 300# x 55¢(loan rate) = $132,000.00
Gross income $182,000.00

Plan #2 - PIK (20% set-aside plus 30% additional)
200 set-aside - 0 -
300 set-aside x 45¢ x 300# = 40,500.00
Target - 500 planted x 21¢ x 300# = 31,500.00
500 planted x 55¢ x 300# = 82,500.00
Gross income $154,500.00

Producer would realize $25,500.00 less dollars with Plan #2
Government would spend $18,500 less on target if any is paid.

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Conclusion: The only advantage to producer would be to recover $27,500.^{00}$ by not having to spend production costs on the 300 acres.

I believe this producer would comply, however, if he does not his production would do less harm.

On 500# Yield Farm

Plan #1 - 200 acres set-aside
800 acres planted

Target income - 800 × 500 × 21¢ = 84,000.^{00} (allowed 50,000.^{00})
Harvest income 800 × 500 × 55¢ = 220,000.^{00}
Gross income $270,000.^{00}

Plan #2 200 acres set-aside
300 acres PIK
500 acres planted

300 × 500 × 45¢ PIK = 67,500.^{00}
Target income 500 × 500 × 21¢ = 52,500.^{00}
Harvest income 500 × 500 × 55¢ = 137,500.^{00}
Gross income $257,500.^{00}

Conclusion: The additional $2,500.^{00} on target outlay on Plan #2 could be paid by PIK.

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On 1200# Yield Farm

Plan #1 - 200 acres set-aside
800 acres planted

Target income · 800 × 1200 × 21¢ = 201,600.^{00} (allowed 50,00.^{00})
Harvest income · 800 × 1200 × 55¢ = 528,00.^{00}
Gross income · \$ 578,000.^{00}

Plan #2 · 200 acres set-aside
300 acres PIK
500 acres planted

300 × 1200 × 45¢ PIK = 162,000.^{00}
Target income · 500 × 1200 × 21¢ = 126,000.^{00}
Harvest income · 500 × 1200 × 55¢ = 330,000.^{00}
Gross income · \$ 618,000.^{00}

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Conclusion: The only advantage to producer would be to recover $27,500.00 by not having to spend production costs on the 300 acres.

I believe this producer would comply, however, if he does not his production would do less harm.

On 500# Yield Farm

Plan #1 - 200 acres set-aside
800 acres planted

Target income 800 × 500 × 21¢ = 84,000.00 (allowed 50,000.00)
Harvest income 800 × 500 × 55¢ = 220,000.00
Gross income $270,000.00

Plan #2 200 acres set-aside
300 acres PIK
500 acres planted

300 × 500 × 45¢ PIK = 67,500.00
Target income 500 × 500 × 21¢ = 52,500.00
Harvest income 500 × 500 × 55¢ = 137,500.00
Gross income $257,500.00

Conclusion: The additional $2,500.00 on target outlay on Plan #2 could be paid by PIK.

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On 1200# Yield Farm

Plan #1 - 200 acres set-aside
800 acres planted

Target income · 800 × 1200 × 21¢ = 201,600.00 (allowed 50,00.00)
Harvest income · 800 × 1200 × 55¢ = 528.00.00
Gross income · $ 578,000.00

Plan #2 · 200 acres set-aside
300 acres PIK
500 acres planted

300 × 1200 × 45¢ PIK = 162,000.00
Target income · 500 × 1200 × 21¢ = 126,000.00
Harvest income · 500 × 1200 × 55¢ = 330,000.00
Gross income · $ 618,000.00

Conclusion: The additional Target outlay of $ 76,000
could be paid PIK

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STATEMENT OF ED BOWMAN, PRESIDENT, NATIONAL ASSOCIATION OF FARMER-ELECTED COMMITTEEMEN

Mr. Chairman: Thank you for this opportunity to testify before this committee. Thank you also for convening a hearing to address the serious situation now facing the American Farmer.

Mr. Chairman, the members of the National Association of Farmer Elected Committeemen are locally elected men and women that are elected by their peers and neighbors, to administer federal farm programs at the local level in all 50 states. We are elected irregardless of race, creed, religion, sex, political affliation or ethnic background. We serve the American Farmer and Rancher on the same indiscriminate basis. The purpose of our organization is to strengthen and preserve the farmer-elected committeemen system and to support programs that will:

1. Increase and improve farm income until it reaches parity with non-farm income.
2. Promote and preserve the family type farm.
3. Eradicate rural poverty.
4. Build and conserve the soil, water and forestry resources of the Nation.
5. Promote new uses of agricultural products.
6. Expand foreign markets of agricultural products.

Mr. Chairman, we wish to express our support for your bill, S. 3074, and voice our appreciation to you and Senator Huddleston for introducing it. Farmers badly need this type of leadership.

We also want to express our support for the concept of Secretary Block's payment-in-kind proposal. We appreciate the Secretary's willingness to look for innovative ways to solve today's farm problems. However, some have mentioned that the payment-in-kind program may have to be linked to a lowering of loan rates and a freeze on target prices. I cannot express too firmly our organization's opposition to the lowering of farm supports.

Mr. Chairman, to lower farm supports now would be a tragic mistake. Such an action would directly and adversely affect farm income and indirectly affect the ability of our farmers to borrow for next year's production. It would be a signal that our government seeks to punish farmers for their efficiency. It would be the wrong signal at a time when farmers badly need encouragement to simply stay in business.

When considering acreage reduction, set-asides, or crop diversions, we must remember that the land taken out of production will continue to require management, and that management costs the farmer time and money. Weed control, conservation, and cover-crops, all cost money and that cost must be a part of today's consideration. That cost argues for continuation of farm support prices. Farmers believe strongly in conservation of their land, but that conservation costs and a profit is necessary before that conservation is possible.

Mr. Chairman, the lesson of today's farm situation is that we cannot rely solely on the export market to manage our surpluses. We need to realize that exports cannot be the basis of our programs, but rather the "bonus" or "cream" of the effort. We strongly support S. 3074 because it appears to attempt to result in a real reduction in production, rather than a simple "reduction target" that we have seen in the past. We genuinely need a real limitation in production until our surpluses are again manageable. However, such a limitation should be controlled so as to recognize the economic base of local farm communities. S. 3074 recognizes this fact, and those provisions must be protected.

In summary, Mr. Chairman, NAFEC is in support of the work begun here today. But we ask that this committee continue its efforts to help perserve the family farm in America.

We hear every day about the difficulties that our government is having with the European Common Market and Japan concerning agricultural trade issues. The Japanese and European response is that they must protect their farmers; they must protect their ability to produce. Those countries remember well the difficulties that arise when farm production is lost because of war or neglect.

The resolve of those countries is a good lesson for us to learn without experiencing it first hand. Let us hope our resolve to help the American Farmer is equal to these countries' efforts.

STATEMENT OF JACK STONE, PRESIDENT, THE WESTERN COTTON GROWERS ASSOCIATION

The Western Cotton Growers Association is pleased to have this opportunity to present its views on the important subject of the government farm program as it affects California cotton producers. Western Cotton Growers Association is an organization of California producers which was established in 1960. Our primary objective is to assure that federal farm legislation affecting cotton serves our interest. To the California producer that means allowing free competition in the marketplace with minimal involvement from the federal government.

We have been involved in legislative efforts on numerous farms bills over the past 20 years. We actively participated in the development of the 1977 and 1981 Acts which have generally had a positive effect on the United States cotton producers.

In the last year, U.S. cotton producers have been confronted with disastrously low prices, increasing surplus stocks and declining exports which threaten the very core of the industry. Given the serious state of our industry, we commend your early attention to these problems by addressing the issues during this lameduck Congress.

At our most recent board meeting in October of this year, the Western Cotton Growers Association reaffirmed its support for market oriented federal legislation which will allow producers to compete freely in the marketplace. Specifically, Western Cotton Growers Association voiced its support for the continuation of loan levels and target prices based on market prices; the creation of a self-financing export-credit revolving fund to help maintain a high level of cotton exports; and its continued strong opposition to mandatory set asides and program limitations.

For the first time in over a decade, cotton producers are faced with seriously depressed prices, a downturn in exports and rapidly escalating surplus stocks. The latest official USDA crop report (November, 1982) shows a spot market price of 57-58¢ per pound which is equal to the loan rate and the August 1983 carry out is now anticipated to be over 7.4 million bales—up from the 5.5 million estimate of two months ago.

In the 1960s, the cotton industry was dependent upon government assistance to help solve problems caused in part by the government itself. The old government farm programs which had set price support loans at artifically high levels had caused cotton to become non-competitive with foreign production and synthetic fibers. As a result, by the mid-1960s, the industry was faced with a surplus of nearly 17 million bales of cotton. Producers were producing for the government rather than the marketplace. Ultimately, cotton producers were forced to depend upon government to reduce production through acreage controls and to supplement income through direct payments. It took nearly ten years for that surplus to be worked off. We're glad those days are over and hope that they never return.

In March, 1981, Western Cotton Growers Association testified before Congress in support of the basic tenets of the 1981 farm bill. At that time we cautioned against establising loan and target prices that were too high. We reminded the Congress that when such prices are out of line with the market they interfere with foreign trade and cause huge build ups of government owned stocks. U.S. cotton producers as a whole export approximately one half of their crop into foreign markets. For California cotton producers this figure is nearly 75%. Thus it can be seen that we must favor those provisions which do not cause our product to be noncompetitive in foreign markets. High loan rates effectively set an artificial floor under our selling price which gives a price advantage to man-made fibers and to other cotton producing nations.

Today, we find ourselves facing a serious over-supply situation which forces us to reexamine some of the specific provisions contained in the 1981 Act. The current farm bill cannot effectively resolve the problems facing our industry. These problems demand an effective short term remedy to reduce existing cotton stocks to a more manageable level. Once the reduction in stocks is accomplished, the loan and target prices must be adjusted in order for cotton producers to once again return to a marketed oriented program.

Turning now to S. 3074, the Agricultural Act of 1982, we would like to comment upon certain provisions which affect California cotton producers.

LOAN RATES AND TARGET PRICES

The commodity loan has worked well as a device to help in the efficient marketing of the cotton crop. Without question, it should be retained as a marketing tool. However, we strongly oppose any increase in the loan rate beyond current levels as this would have an adverse effect on the marketplace and would particularly hurt our industry's ability to compete for foreign sales. We would prefer to see loan level and target prices reduced; at a minimum they should be frozen at current levels.

ACREAGE REDUCTION PROGRAM

Western Cotton Growers Association believes that the voluntary acreage reduction program in its current form is not an effective means for reducing cotton production. The voluntary set aside program can not significantly reduce cotton stocks because the $50,000 payment limitation serves to keep many producers from participating in the program. We feel the only way to attract California producers into a voluntary set aside program is to remove this limitation from the program.

The Western Cotton Growers Association is strongly opposed to mandatory acreage reduction programs. Individual producers must have the ability to determine for themselves whether participation in the set aside program would be advantageous. They must be allowed the right to exercise this option. A mandatory acreage reduction program involves too much federal government control and moves the industry away from a market oriented position.

PAYMENT-IN-KIND

The payment-in-kind (PIK) concept would allow the Secretary to use stocks owned by the Commodity Credit Corporation to encourage farmers to reduce production appears to have merit. The fundamental problem confronting the cotton industry today is the enormous buildup of stocks. The situation dictates that in order to bring the level of surplus stocks in line with current sales, a temporary reduction of land planted to cotton must occur.

The payment-in-kind program represents a positive method for accomplishing this goal on a one-time basis. The PIK concept is far preferable to a return to the days of government mandated set asides, allotment and diversion programs which would prove disastrous to California cotton producers.

In order to be of value to California producers there are certain questions that must be addressed. First of all, we make the assumption that the $50,000 payment limitation does not apply to the PIK program. However, if a producer must first comply with the entire voluntary reduction program in order to be eligible for participation in the PIK program, many California cotton producers will be unable to make use of this program because of the current payment limitation. Therefore, the payment limitation restrictions must be removed.

There appears to be no way that a true payment-in-kind program can operate for cotton. There are a number of reasons for this including the differences in grades and the location of existing stocks. In order to be effective a certificate system may have to be established. Such a certificate could be valued in pounds or bales and the value of the certificate should reflect normal farm yields as well as the spot prices for average quality cotton for farms located in a specific area. It is envisioned that such a certificate could be presented to the Commodity Credit Corporation or to ASCS offices for cash payment. In order to operate such a program, the Secretary of Agriculture may wish to provide an incentive or forgiveness program to encourage farmers to redeem their existing loans from the Commodity Credit Corporation. In this fashion, the Secretary could obtain the necessary funds to cover the payment of PIK certificates.

There are many questions that must be answered regarding the question of the operation of the payment-in-kind program. We encouraged this committee to work closely with the Secretary of Agriculture to develop a workable program. In order for the program to have maximum benefit the provisions of such a program should be announced as soon as possible. The Western Cotton Growers Association stands ready to aid this Committee in the development of a program that will be beneficial for the cotton producers of California.

BONUS PROGRAM

As a means for reducing surplus stocks of cotton we believe the payment-in-kind concept is preferable to the bonus program. If however, we find we are unable to make export sales as a result of unfair competition by our foreign competitors, the bonus program could prove to be a useful tool in regaining these lost markets. However, under no circumstances should the government enter the marketing business with CCC owned stocks which could displace existing U.S. commercial exports in the world market.

EXPORT EXPANSION

The Western Cotton Growers Association supports the expanded use of P.L. 480 and CCC credit programs as a method for removing the current cotton surplus. We would like to reiterate our support for the establishment and appropriation for an export credit revolving fund. We believe that close scrutiny of the benefits of expanded agricultural exports clearly demonstrates the significance that such exports make to our balance of payments, to a healthy economy and to jobs in the United States. Such an examination can lead only to the conclusion that the availability of government credit remains critical to those exports. In the international marketplace, the availability of credit often makes a difference between sale or no sale. Many countries need our cotton, but they also need the opportunity to finance that cotton through the availability of the government credit programs which we have used so efficiently in the past. Such programs should be expanded and not eliminated. We vigorously support the expansion of these programs.

CONCLUSION

In conclusion the Western Cotton Growers Association cannot emphasize enough our commitment to the continuation of a market-oriented cotton program with minimal government interference. The current situation may require immediate action, but the long-term health and prosperity of the California cotton industry depends upon a program that permits our product to move freely into the marketplace at competitive price levels and without the existence of large government-owned stocks overhanging the market.

To this end, Western Cotton Growers Association believes that loan rates and target price levels must reflect market prices if our product is to move into the market place rather than into the government's hands. Accordingly, we oppose any increase in the current loan rate. We believe that the loan and target prices set in the 1981 Act are too high given the current world situation. If it is not politically practical to reduce these levels, we would support a freeze in the current loan and target price.

In addition, the current voluntary acreage reduction program is not workable for California cotton growers because of the existing payment limitation. For the program to be feasible, the payment limitation requirement must be removed. At the same time, the current program must not be replaced by mandatory set asides, paid diversions or allotments.

Since exports account for the majority of our cotton sales, we support additional funding of Public Law 480 and Commodity Credit Corporation credit programs. Also we support the creation of a CCC revolving export credit program.

Although we ultimately support a free market philosophy with minimal government involvement, we believe the payment-in-kind program could be a useful tool in eliminating the burdensome cotton stocks that ultimately must be removed before the industry can again prosper. These programs must be carefully developed however, to assure that they would benefit all cotton producers, including those in California. We must also ensure a minimal level of government interference; once the existing stocks are reduced, these programs must be terminated.

Western Cotton Growers Association thanks you for your attention to this urgent matter. It is critical that we address these problems to avoid returning to the days of the 1960s. When little if any cotton was sold overseas and the government was the major buyer of our commodity. Thank you.

STATEMENT OF THE NATIONAL COTTON COUNCIL OF AMERICA

The National Cotton Council of America is the central organization of the raw cotton industry. It represents producers, ginners, merchants, warehousemen, cottonseed crushers, cooperatives, and textile manufacturers. Our 290 delegates are chosen by 90 certified cotton organizations in the 14 State units and five cotton manufacturer districts, and represent interests in all growing states. Any position adopted by the Council must be approved by a majority vote of each of the industry's seven branches, voting separately.

While our policy-makers have not yet finalized an industry position, we have had an informal task force studying the various proposals that are before the Committee. There are several broad areas in which we have concern.

Certainly we are agreed that the current state of the farm economy is critical. The large carry-over of cotton stocks, now estimated to reach 7.6 million bales or more by the beginning of the 1983–84 marketing year, have depressed prices well below the cost of production, and government farm program costs have skyrocketed.

Therefore, the Council's Board of Directors on September 10 unanimously adopted the Producer Steering Committee cotton program resolution, as follows:

"Whereas, the current burdensome carry-over of upland cotton is a major factor that is contributing to low market prices, and whereas, it is imperative that this carry-over be reduced to a manageable level as soon as possible, be it therefore resolved that we urge the continuation of an acreage reduction program for the 1983 crop with the objective of achieving a carry-over of not more than 3½ to 4 million bales as rapidly as practicable.

"We further recommend that the Secretary of Agriculture utilize all tools at his disposal to achieve this objective.

"Additionally, we urge that the USDA intensify efforts to expand markets by greater use of PL 480, CCC credits and Export-Import Bank loans.

"We also request that the already authorized agricultural export credit revolving fund be adequately funded."

We believe that cotton supplies must be brought more in line with demand if the price for our product is to improve appreciably. In today's world economy, however, it does not seem likely that we can export our way out of trouble, so acreage reduction programs are a necessity. The payment-in-kind program proposed by the Secretary could be the answer.

There are, however, major differences between cotton and the grains which may make it more difficult to implement a cotton program. For example:

1. Cotton is not a fungible commodity. Each bale carries its own separate warehouse receipt, quality and weight. Quality differences alone may make individual bales differ in value by as much as $150 or more. Location also affects value. Quality may limit the use of individual bales to certain types of yarn or cloth. (For example, short fiber, low strength cottons can be used only in coarse yarn and fabrics.) Therefore, certificates redeemable in CCC stocks must be in terms of (1) dollars, or (2) a specific quality and weight of cotton at a specific location, or equivalent value. Reclassification should be available to redeemers of CCC stocks to preserve the value of certificates.

2. Payment limits are a serious deterrent to participation in the acreage reduction program for cotton. For example, well over a third of the cotton acreage in Arizona and California is excluded from payment at a rate of only 5 cents, and over 40 percent when the rate rises to 20 cents. There two states account for 35 percent of U.S. production. Therefore, a successful diversion program for cotton must include payment-in-kind that is not subject to payment limits.

3. Cotton prices, while abysmally low, are more favorable than soybeans or grains—the principal alternatives. This is just the opposite of the situation at planting time in 1982, when cotton growers cut acreage 25 percent from the 1982 base in spite of a program that called for only a 15 percent cut. If current prices prevail until spring 1983 and the participation rate increases somewhat due to increased program incentives, it still appears that planted acreage could rise by at least a million from 1982 in spite of larger acreage reduction requirements. Therefore, strong incentives—perhaps stronger than those for grain—will be needed to attract additional cotton acreage into a diversion program in 1983.

4. Except for farms that intend to go out of business, it is impractical to expect many farmers to divert their entire cotton bases. The labor force cannot be dismissed for a year and then re-hired. An adequate diversion program should allow both whole and partial crop base participation.

5. Any PIK market incentive program for cotton must offer equal opportunity to both domestic and export markets so that foreign textile mills are not given an unfair advantage over domestic mills in supplying U.S. and foreign textile markets.

6. Any use of PIK programs or commodities to enhance Public Law 480 activities should provide for export of value added cotton yarns and textiles as well as raw cotton in order to open up markets that have little or no textile manufacturing capacity.

7. And finally, such a program must have strict limits on the acreage that can be enrolled within a county. We recognize the need to reduce carry-over to 3½ to 4 million bales, but the reduction must be graduated over at least a 2-year period. In order to maintain vital markets we must continue competitive in availability and price. Therefore, we must continue to produce the qualities and quantities needed for our domestic mills and for export markets. But the attractiveness of a diversion program varies from region to region because of differing production costs. Too large a reduction in any one community could seriously disrupt that community's economy. We believe gins, warehouses, merchants, cottonseed oil mills, and agribusiness suppliers would be seriously impacted if plantings are reduced beyond a reasonable percentage. If excessively large reductions are permitted on individual farms, this could cause landlord-tenant problems such as those experienced under previous farm programs. We would not like to see wholesale changes in rental agreements, or tenant farmers who have expensive farm equipment but no land to farm.

We feel that if payment-in-kind is to be used for acreage diversion, it should also be used to enhance domestic and export use of commodities, being certain to treat domestic and foreign customers equally.

We appreciate the opportunity to present our views.

Statement of Elbert Harp, Executive Director, Grain Sorghum Producers Association, Abernathy, Tex.

GRAIN SORGHUM PRODUCERS ASSOCIATION STUDIES USDA PLAN

The National Board of Directors of Grain Sorghum Producers Association (GSPA) met on December 1 to discuss USDA's proposed program which would allow growers to idle part of their base acreage and receive payment with certificates of ownership of government grain stock. The plan, now being called "Payment In Kind" or "PIK", proposes to further reduce 1983 planting and, at the same time, reduce USDA's holding of surplus commodities.

GSPA President Mabry Foreman, of Felt, Oklahoma, said of the program, "Secretary of Agriculture John Block and the U.S. Department of Agriculture are to be commended for their efforts to improve the American farm economy by reducing production and surplus stocks. The Payment In Kind proposal is an innovative approach to solving our problem. We believe it deserves serious consideration."

Grain Sorghum Producers Association will support USDA's Payment In Kind program, provided it includes the following points.

1. The PIK program would be offered in addition to the 1983 Feed Grain Reduced Acreage Program previously announced, not as a replacement or alternative to it.

2. The PIK program shall in no way be used to lower loan rates and target prices of present or future programs.

The PIK payments would be set at 50 percent of the farm yield. If this does not adequately reduce production, USDA would have the option of raising the percentage to obtain the desired diversion.

4. In order to protect agribusiness within each community, total diversion (RAP and PIK) would not exceed 60 percent on any farm.

5. PIK stocks would not be released to farmers before 1983 harvest time for that commodity. PIK stocks would then be released at the rate of 20 percent per month for a period of 5 months, to avoid disruption in market prices.

6. Farmers would be able to replace the PIK commodity in the Reserve or Government Loan program to facilitate an orderly marketing plan.

7. The Government would pay storage and interest on PIK commodities until their release to farmers.

8. To secure ownership of sufficient grain to conduct this program, CCC may offer to buy farmers' equity of grain in current reserve programs, CCC may make the offer in increments, increasing the price until the desired amount of grain has been obtained.

9. Farmers' PIK payments will be made from the closest available CCC grain.

GSPA maintains that, since PIK commodity stocks are in lieu of a farmer's eligible production allowed under the 1983 Reduced Acreage Program, they are not subject to the $50,000 limitation of payments.

Foreman pointed out that GSPA reserves the right to oppose the PIK plan if it does not include the points listed above. Elbert Harp, Executive Director of GSPA, will meet with Secretary Block and other USDA officials on December 8 to discuss details of the PIK plan.

Statement of Wallace J. Campbell, President, CARE

I would like to thank you for this opportunity to present written testimony before your Subcommittee. CARE provides nearly 500,000 metric tons of food annually to needy people overseas to combat hunger and malnutrition and promote self-help development. We are therefore greatly concerned with the issues being addressed in these hearings and in S. 3074, the Agricultural Act of 1982. I believe our foreign agricultural policy must look beyond our present difficulties to long term market development that will benefit our farmers in years to come and help preserve America's leadership while providing a much needed measure of global food security. USDA data shows that total world imports of wheat and coarse grains nearly doubled between 1970 and 1980. This increase was 146 percent in less developed countries and 68 percent in developed countries. Yet, in less developed countries, representing 1.3 billion people, with per capita incomes less than $360 per year, grain imports increased only 9 percent. In other words, the hungriest nations with the greatest potential demand for U.S. agricultural products, benefitted least from our food marketing system. I believe an effective foreign agricultural policy is one which marries the interests of farmers with our equally great commitment to alleviate world hunger. Yet, such a policy is not effective overnight. It took decades for Korea and Taiwan to graduate from our P.L 480 program to become two of our largest agricultural customers.

It is my opinion that a "payment-in-kind" program as that presented in S. 3074 offers an opportunity for this marrying of interests. I recommend legislation that would enable farmers who choose to participate in acreage reduction and land diversion under PIK to be allowed to donate the agricultural commodities to which they are entitled through private voluntary organizations for distribution to needy American households and for combatting hunger and malnutrition overseas. The farmers in turn should receive tax concessions in accordance with legislation governing charitable contributions. Overseas programs of private voluntary organizations would need flexibility to barter and sell these donations for local currency in order to finance humanitarian and infrastructural development projects and help defray administrative and shipping costs. Again let me state that a market exists for our agricultural surpluses in poor countries although it is not a U.S. dollar market, and a great need exists for our taking the distant view of where our markets will be in the future.

Mr. Chairman, it is also our recommendation that consideration be given to amending Sections 302 and 303 of S. 3074 to facilitate the ability of voluntary organizations to use our agricultural surplus to greater advantage in reaching the humanitarian and export market development objectives of our programs. Let me be specific.

We recommend that Section 302 of S. 3074 be expanded to include Title II and allow CCC donations to increase the level of exports under Title II of P.L. 480 as well as under Titles I and III. This additional Title II authority would be helpful to CARE, CRS, the World Food Program and other organizations in our efforts to reach more needy people. The State of Tamil Nadu in India, for example, has requested CARE provide 11,000 metric tons of rice during India's fiscal year 1983 (with declining commitments for 1984 and 1985) in order to expand the State's school feeding program to reach 1½ million school children. Responding to humanitarian needs of this magnitude are double-edged in that they bring about improved literacy through higher school attendance as well as improve the nutritional standards of a high risk group. Projects as this which now exceed the scope of budgeted Title II authority would be possible under the new authority.

With respect to Section 303 of S. 3074 we would recommend the Subcommittee consider giving greater flexibility to private voluntary agencies operating in the field with regard to the disposition of donated agricultural commodities while at the same time maintaining safeguards against market displacement. CARE supported the Administration's efforts earlier this year to re-enact Section 416 of the Emergency Agricultural Act of 1946, and we would support the expansion of this authority to include the overseas distribution of non-dairy surpluses. However, I feel it important to point out that the Administration's regulations governing 416 have been highly restrictive. In particular, the program eligibility requirement prohibiting barter and the monetization of donated commodities along with USDA's assurances of commodity delivery only to U.S. ports are particularly onerous to private voluntary organizations involved in international feeding programs. We recommend that Section 303 of S. 3074 be amended to allow private voluntary organizations receiving 416 donations to sell such commodities to help defray administrative costs of feeding programs and to finance development projects.

In reporting the Omnibus Reconciliation Act of 1982 Senators Andrews and Boschwitz recommended that a "Food and Nutrition Advisory Committee" be established to advise the USDA in carrying out Section 416 authority. We believe that an advisory committee as this, which should include representatives from private voluntary organizations, cooperatives and industry, would greatly enhance the effectiveness and accountability of our food assistance efforts.

On behalf of CARE I appreciate this opportunity to present our views.

[The following charts were supplied by Secretary Block, see p. 62 for oral reference.]

Today's Farm Problem...

LARGE SUPPLIES

PLUS

WEAK DEMAND

EQUAL

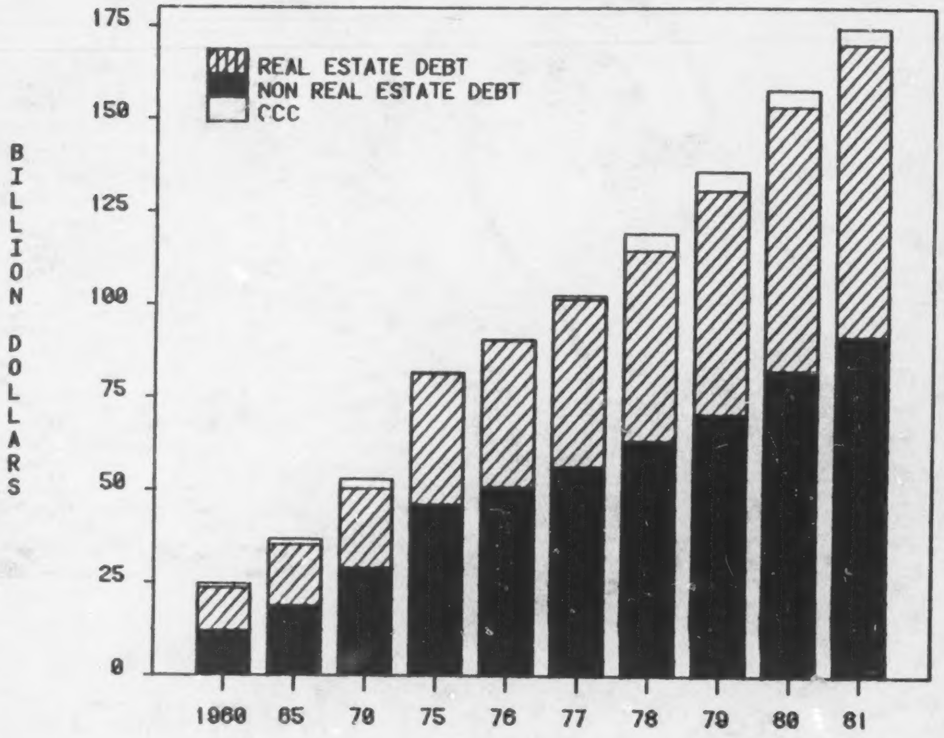
LOW PRICES

WHY ARE CROP SUPPLIES SO LARGE

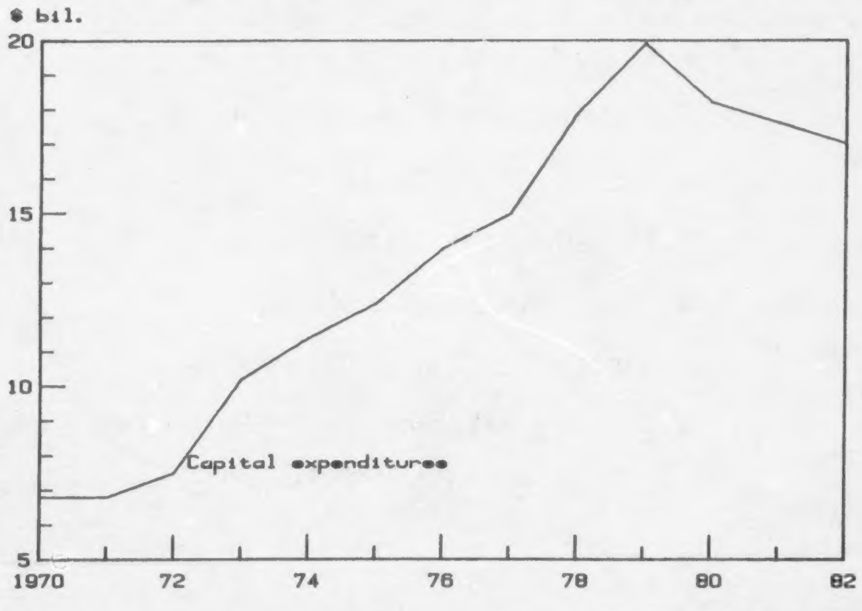
MANY FACTORS PROPELLED PRODUCTION UPWARD OVER THE PAST DECADE:

- Easy Credit
- Heavy Capital Investment
- Rising Prices and Price Supports
- Booming Farm Exports
- Acreage Expansion
- Yield-Boosting Technology
- Excellent Weather in 1981 and 1982 --in U.S. and Other Key Areas

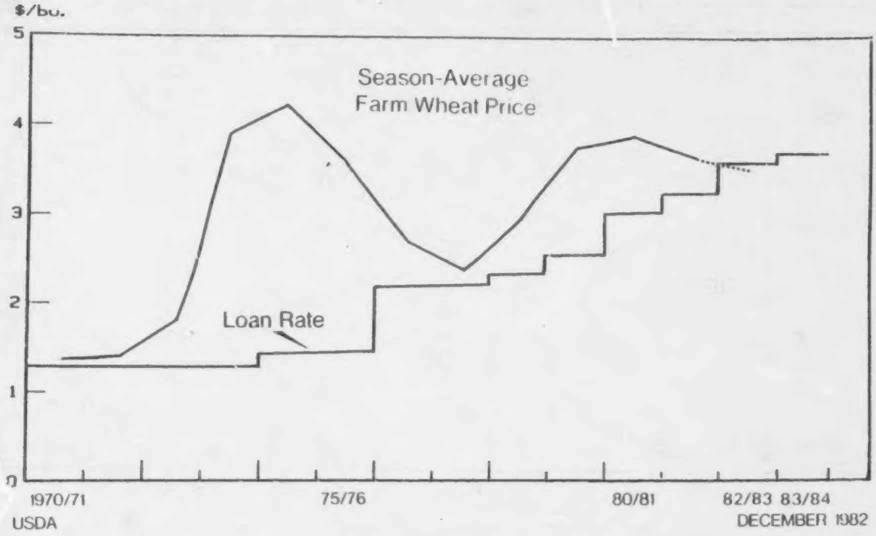
Easy Credit Has Boosted Farm Debt



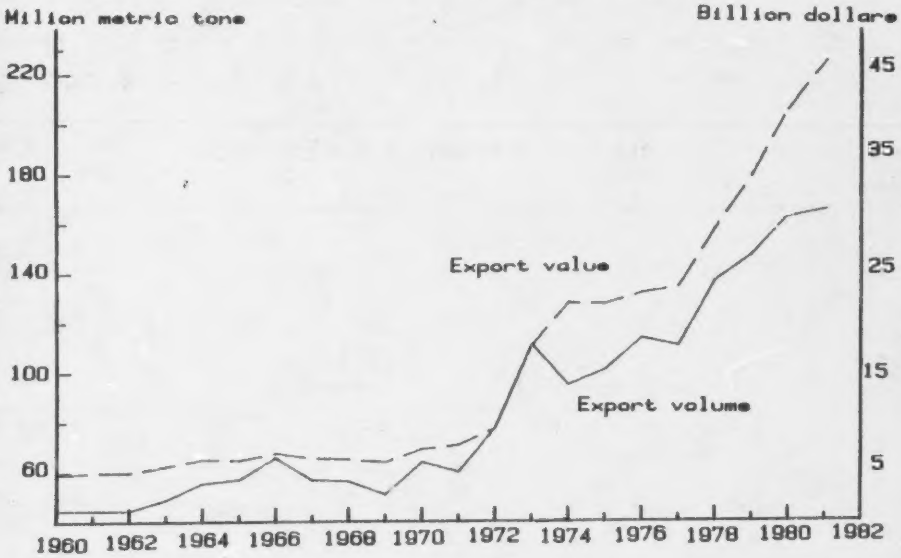
Capital Investment Was Heavy During 70's



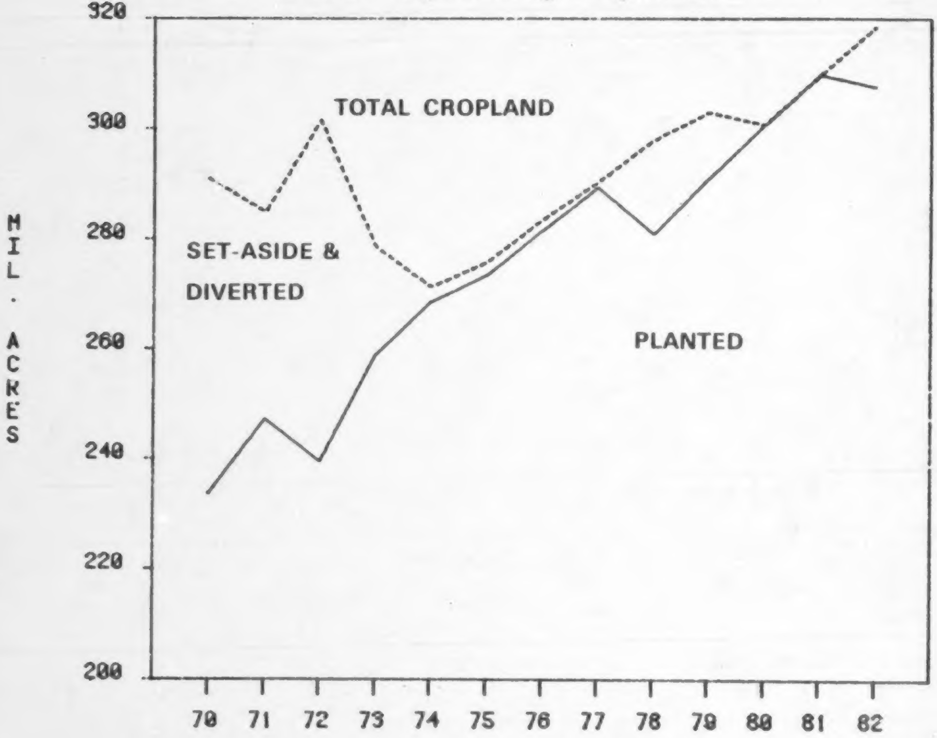
Prices and Loan Rates Trended Upward



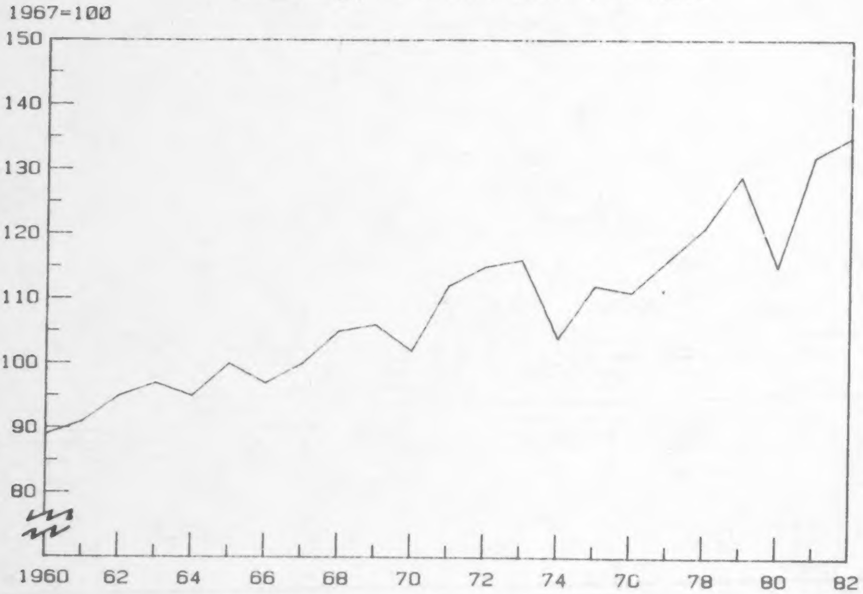
Agricultural Exports Soared



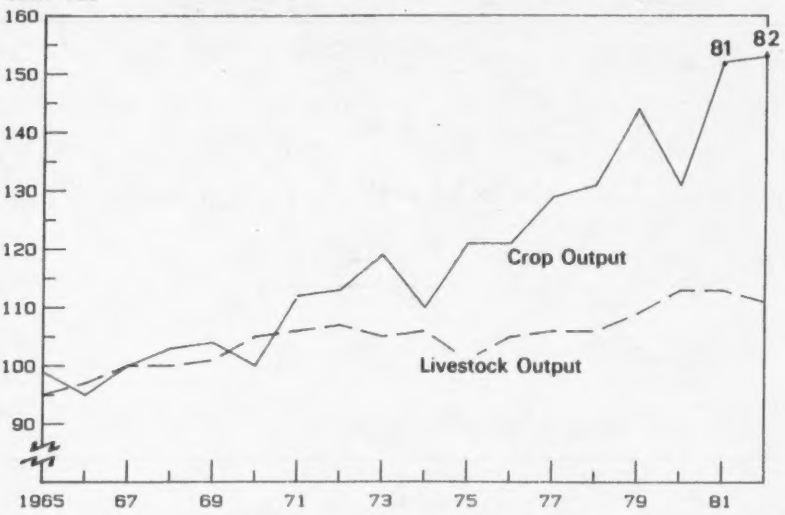
U.S. Crop Acreage Expanded



Technology Boosted Yield Per Acre



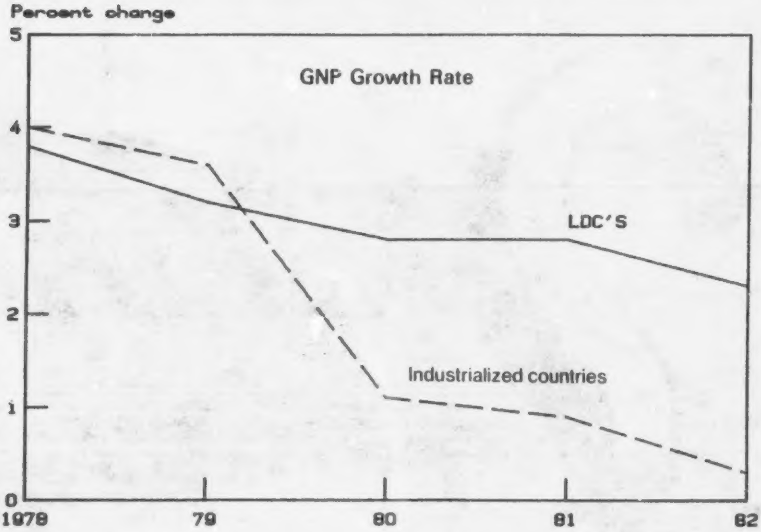
Weather Pushed Crop Output to New Peaks in 1981 and 1982



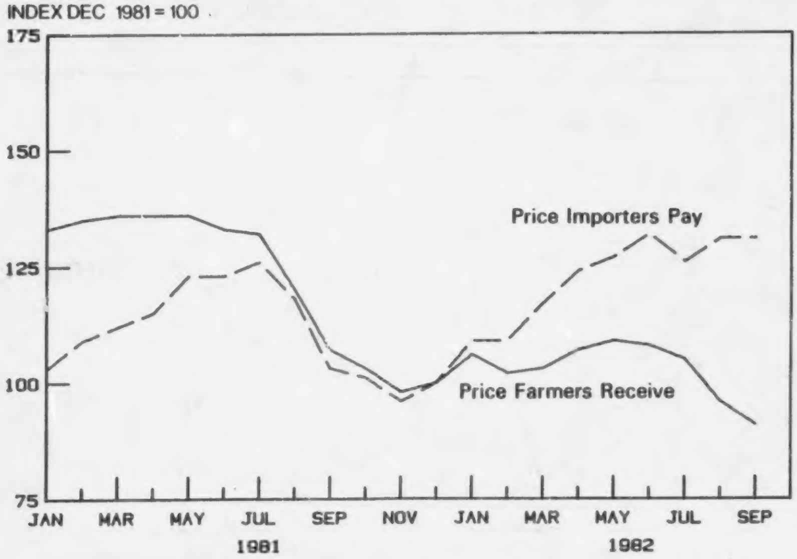
WEAK DEMAND IS A GLOBAL PROBLEM

- Widespread Recessions
- Rising Value of Dollar
- Instability in Eastern Europe, Mexico, elsewhere
- Embargo-Related Losses
- East-West Political Tensions
- Unfair Trade Practices

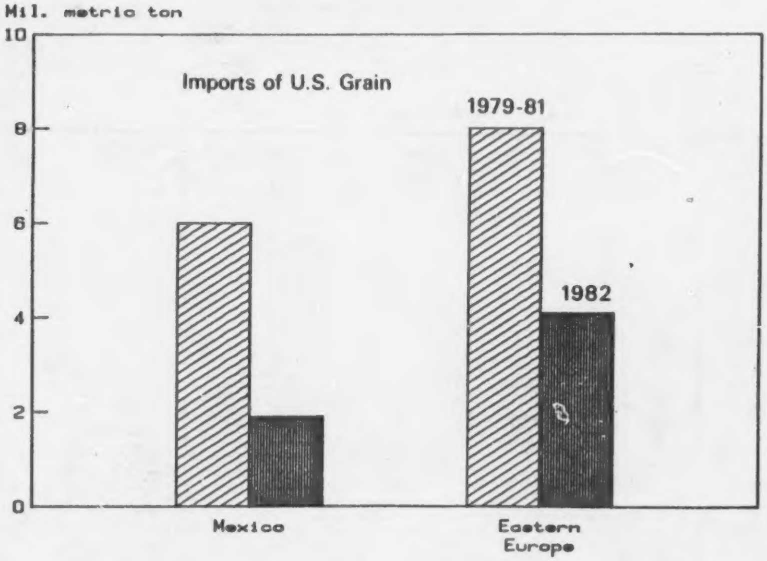
Widespread Recessions



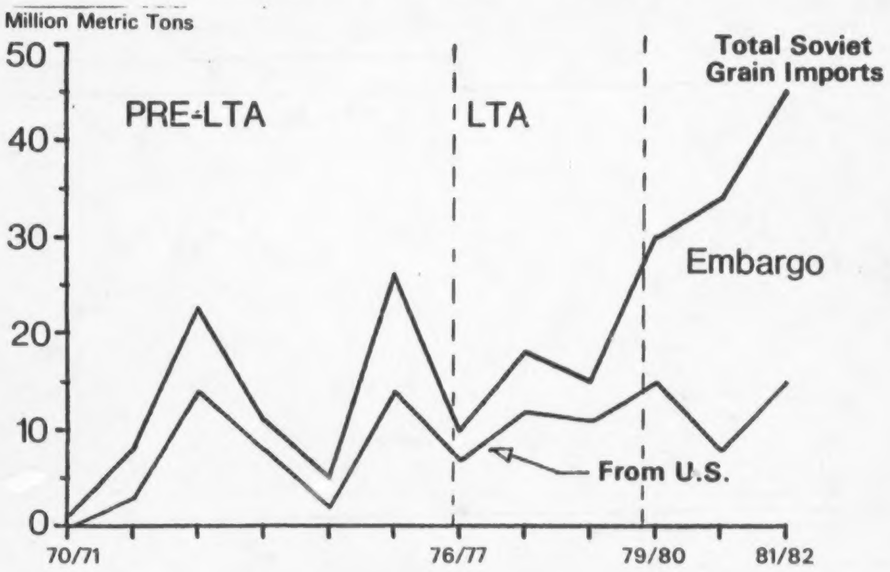
Rising Dollar Makes U.S. Corn Exports Less Attractive



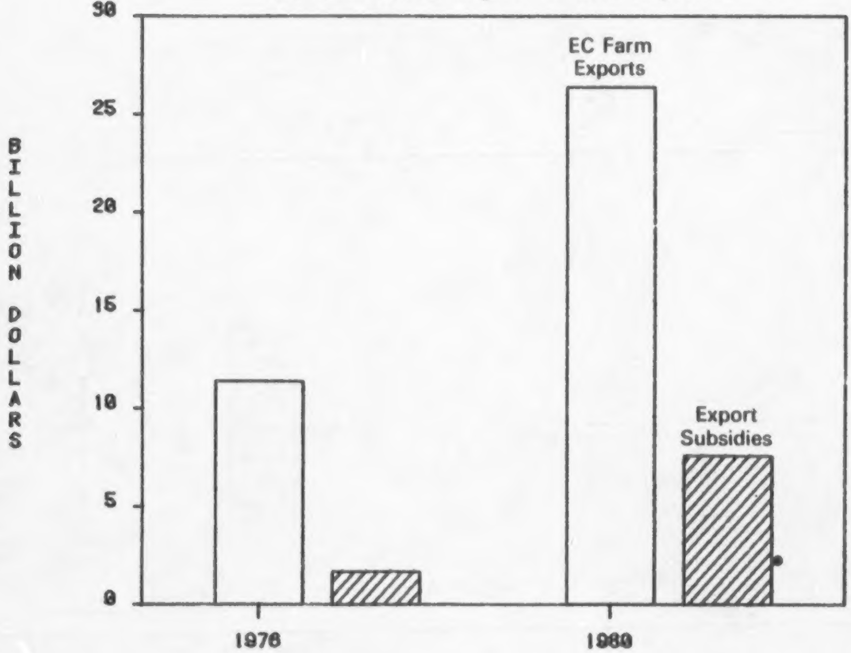
Instability Reduces Farm Exports



Embargo Cut U.S. Share of Soviet Grain Imports



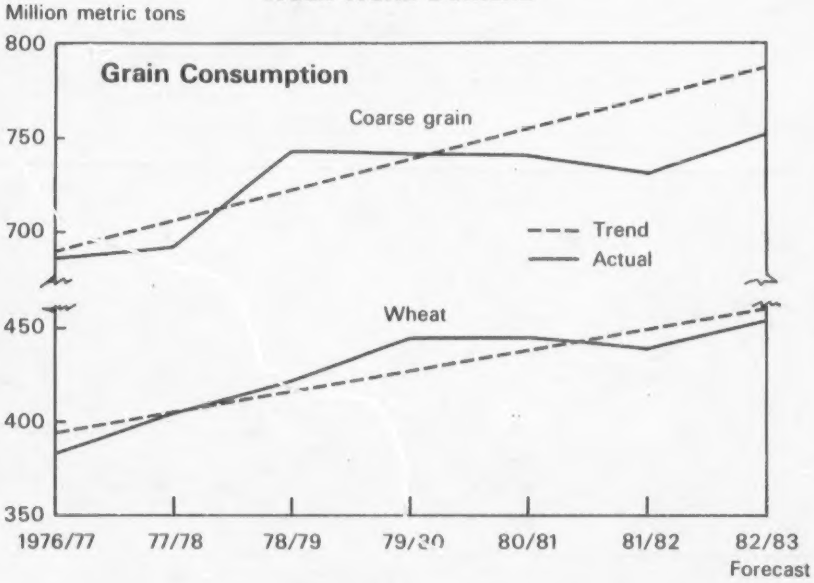
EC Subsidies Expand Their Exports



THE FARMER IS UNDER STRESS FROM:

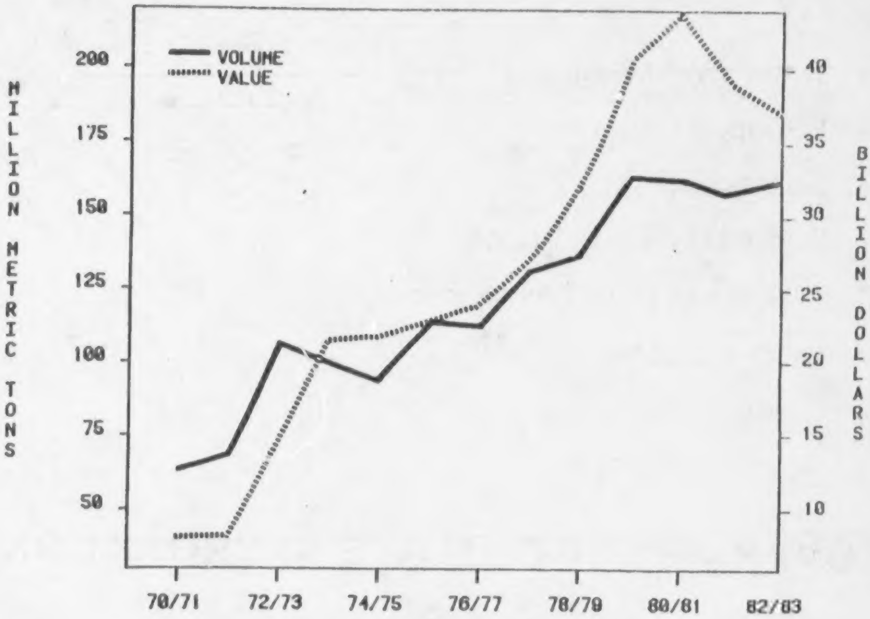
- Weak World Demand
- Reduced Exports
- Soaring Stocks
- Depressed Farm Prices
- 3 Years of Poor Farm Income
- Drop in Farmland Prices
- Costly Credit
- Solvency Problems

GOVERNMENT OUTLAYS SKYROCKETING

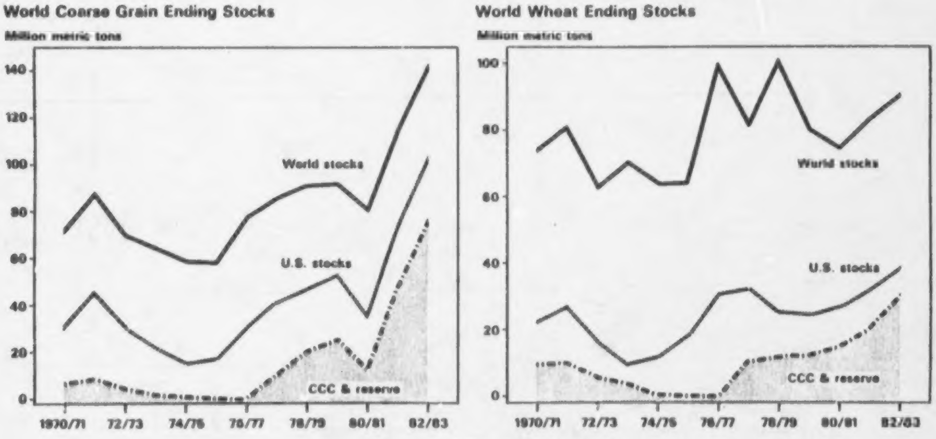


Weak World Demand

Farm Exports Have Dropped



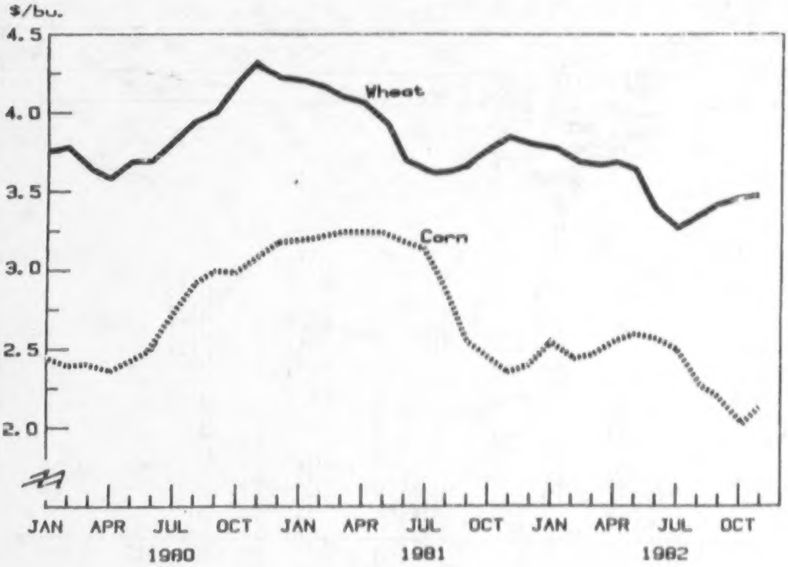
Soaring Grain Stocks


World Coarse Grain Ending Stocks

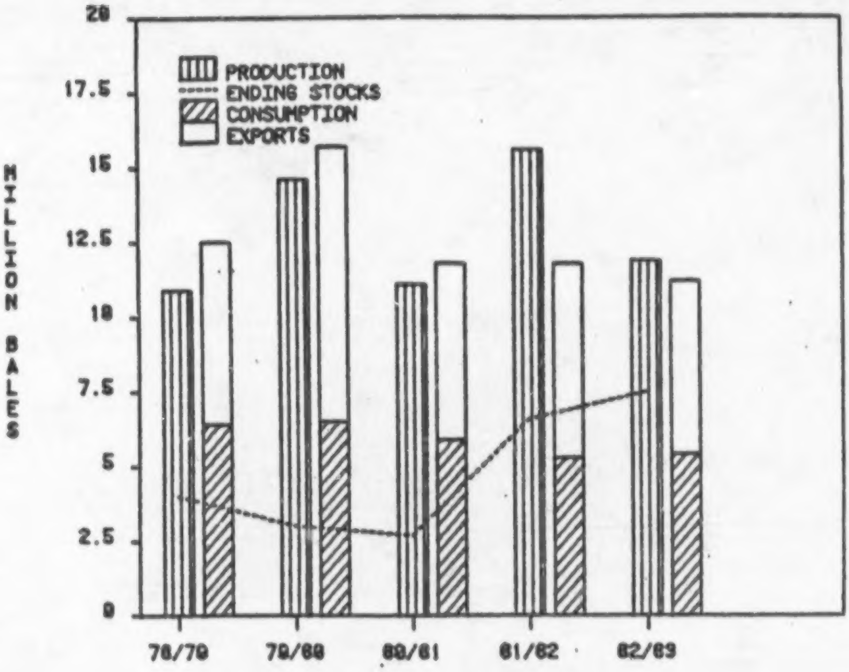
World Wheat Ending Stocks

October 22, 1982

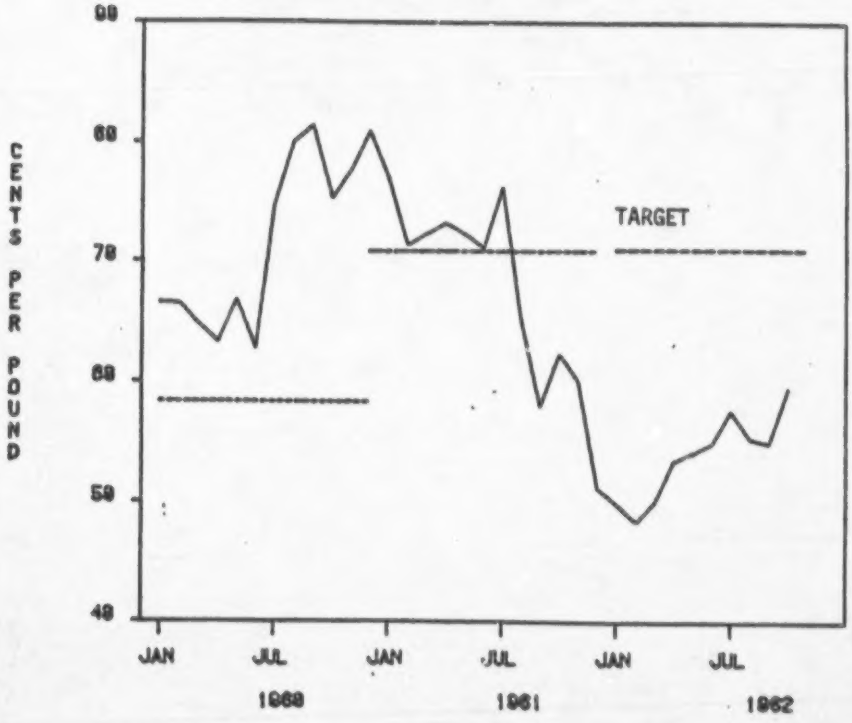
Grain Prices Are Depressed



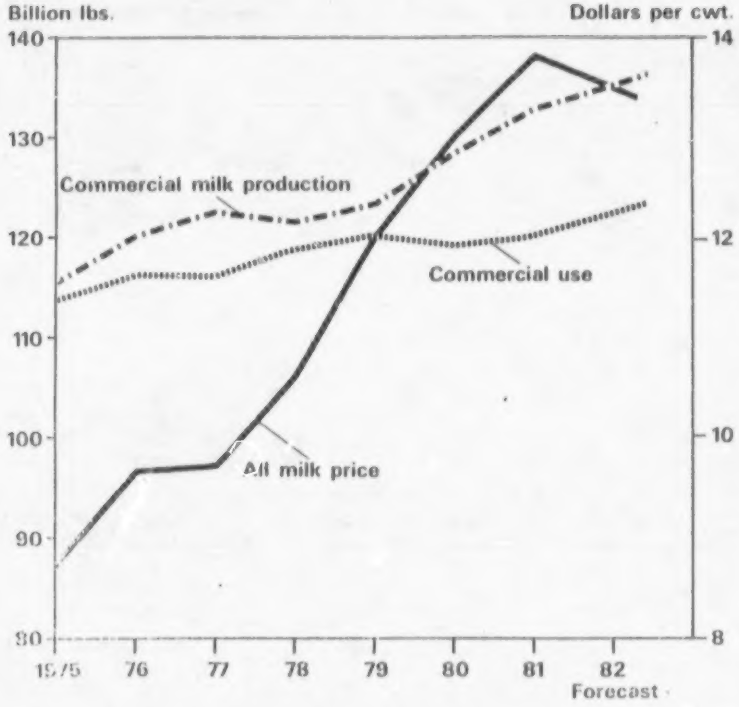
Large Cotton Supplies, Depressed Prices



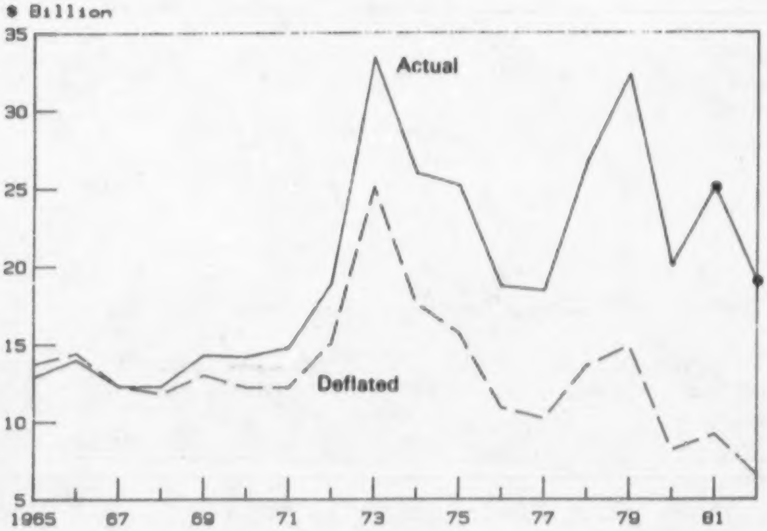
PRICES RECEIVED FOR UPLAND COTTON



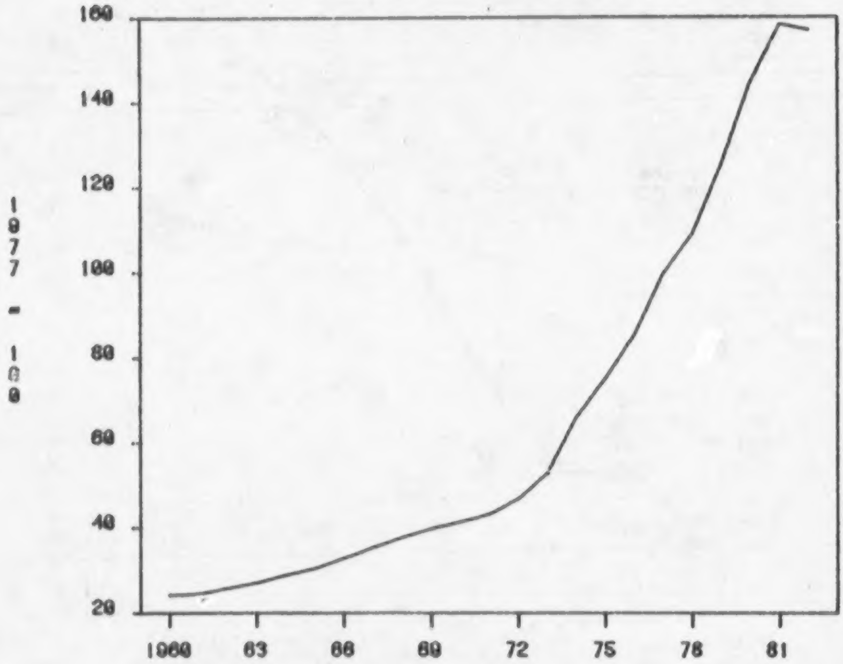
Milk Production, Use and Price



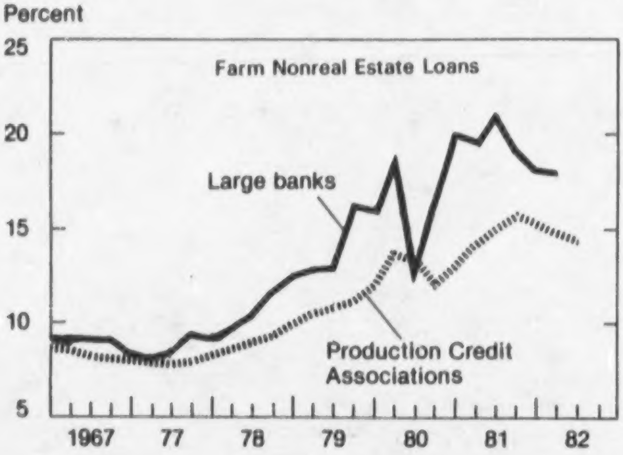
3 Years of Poor Farm Income



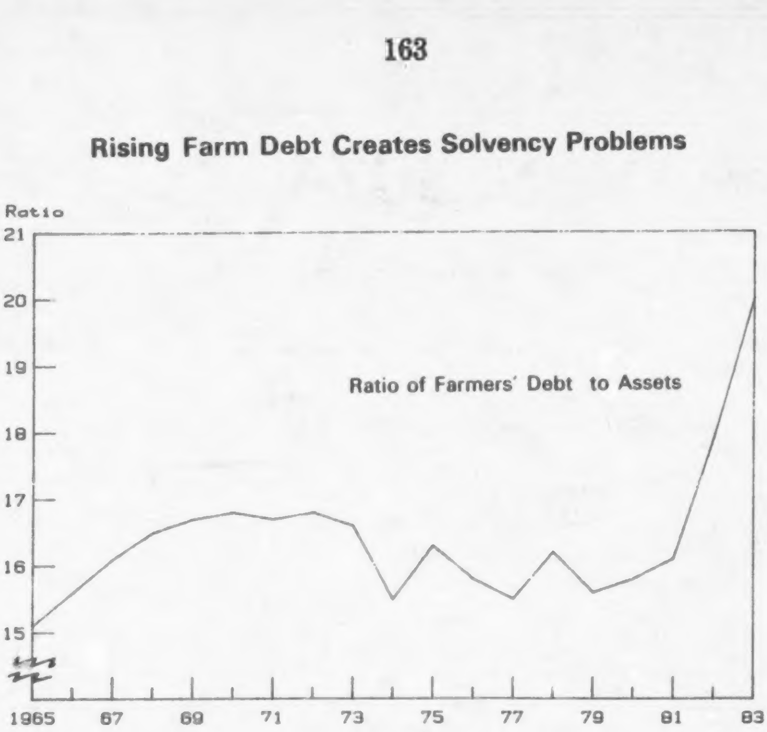
Farmland Values Have Dropped



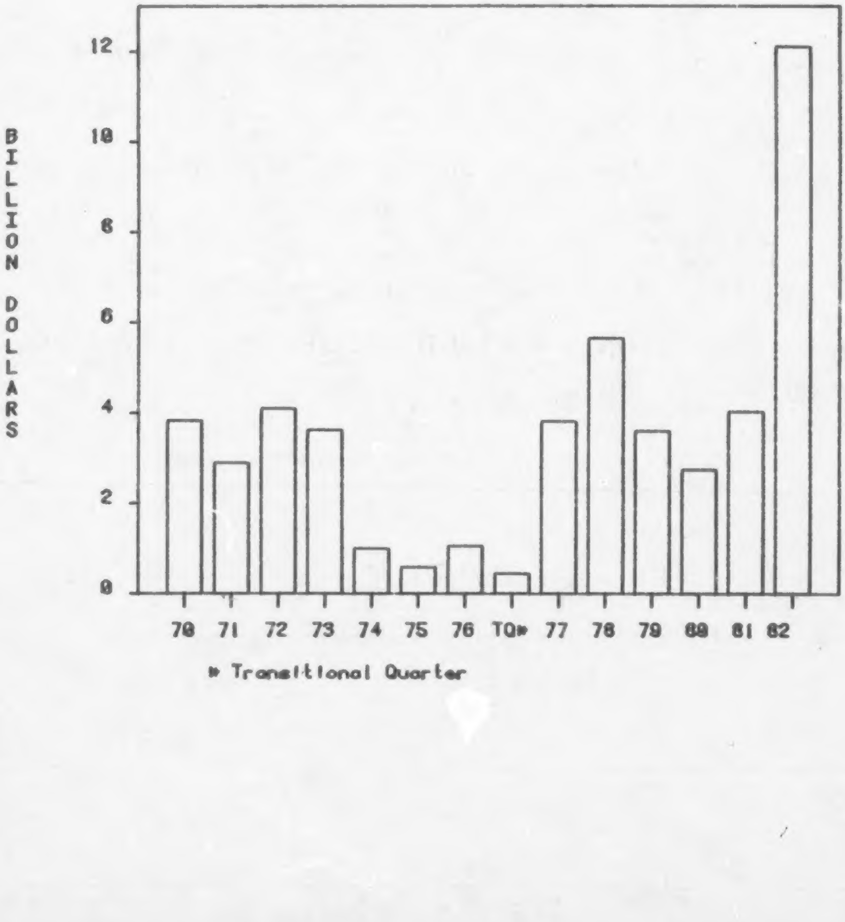
Interest Rates Have Risen



Rising Farm Debt Creates Solvency Problems



Skyrocketing Outlays for Price Support Activities



97TH CONGRESS
2D SESSION

S. 3074

Entitled the "Agricultural Act of 1982".

IN THE SENATE OF THE UNITED STATES

DECEMBER 3 (legislative day, NOVEMBER 30), 1982

Mr. COCHRAN (for himself and Mr. HUDDLESTON) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

Entitled the "Agricultural Act of 1982".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Agricultural Act of 1982".

TITLE 1—WHEAT, FEED GRAIN, UPLAND COTTON, AND RICE PROGRAMS UNDER THE AGRICULTURAL ACT OF 1949

ACREAGE REDUCTION PROGRAMS FOR THE 1984 CROP OF WHEAT

SEC. 101. Section 107B(e) of the Agricultural Act of 1949 (7 U.S.C. 1445b-1(e)) is amended by—

(1) in paragraph (1)--

(A) in the first sentence of subparagraph (A), striking out "subparagraph (B)" and inserting in lieu thereof "subparagraphs (B) and (C)"; and

(B) adding at the end thereof a new subparagraph (C) as follows:

"(C) For the 1984 crop of wheat, the Secretary shall provide for a combination of an acreage limitation program under paragraph (2) of this subsection and a diversion program under paragraph (5) of this subsection under which, for participating producers, the acreage on the farm planted to wheat for harvest shall be limited to the wheat acreage base for the farm, as determined under paragraph (2) of this subsection, reduced by a total of not less than 15 per centum, consisting of a reduction of 50 per centum of such amount under the acreage limitation program and a reduction of 50 per centum of such amount under the diversion program. As a condition of eligibility for loans, purchases, and payments on the 1984 crop of wheat, the producers on a farm must comply with the terms and conditions of the combined acreage limitation program and diversion program.";

(2) in paragraph (2), inserting immediately after the sixth sentence the following: "Notwithstanding any other provision of this paragraph, the acreage base to be used for the farm under the program for the 1984 crop of wheat shall be established by the Secretary, taking into consideration the acreage base established for the farm for the 1983 crop, historical production data, crop rotation practices, summer fallowing, and such other factors as the Secretary determines should be considered in establishing a fair and equitable base.";

(3) in paragraph (5)—

(A) in the first sentence, striking out "The Secretary may" and inserting in lieu thereof "Except as otherwise provided in this paragraph for the 1983 and 1984 crops of wheat, the Secretary may"; and

(B) adding at the end thereof the following: "Notwithstanding the foregoing provisions of this paragraph, the Secretary shall implement a land diversion payment program for the 1984 crop of wheat under which the Secretary shall make crop retirement and conservation payments to any producer of the 1984 crop of wheat [illegible] farm acreage planted to wheat for harvest [illegible]ed so that it does not exceed the wheat acreage base for the farm less an amount equivalent to 7.5 per centum of the wheat acreage base (or such greater percentage as may be prescribed by the Secretary) in addition to the reduction made under the acreage limitation program for the crop under paragraphs (1)(C) and (2) of this subsection, and the producer devotes to approved conservation uses an acreage of cropland equivalent to the reduction from the wheat acreage base required under this paragraph. Such payments shall be made in an amount computed by multiplying (i) the diversion payment rate, by (ii) the farm program payment yield for the crop, by (iii) the additional acreage diverted under this paragraph. The diversion payment rate shall be established by the Secretary at not less than $3 per bushel.".

WHEAT LOANS

SEC. 102. Notwithstanding any other provision of law, effective for each of the 1983 through 1985 crops of wheat, the Secretary of Agriculture shall make available to producers participating in an annual program for any such crop of wheat under the Agricultural Act of 1949 loans and purchases under such program at not less than $3.80 per bushel.

ACREAGE REDUCTION PROGRAMS FOR THE 1984 CROP OF FEED GRAINS

SEC. 103. Section 105B(e) of the Agricultural Act of 1949 (7 U.S.C. 1444d(e)) is amended by—

(1) in paragraph (1)—

(A) in the first sentence of subparagraph (A) striking out "subparagraph (B)" and inserting in lieu thereof "subparagraphs (B) and (C)"; and

(B) adding at the end thereof a new subparagraph (C) as follows:

"(C) For the 1984 crop of feed grains, the Secretary shall provide for a combination of an acreage limitation program under paragraph (2) of this subsection and a diversion program under paragraph (5) of this subsection under which, for participating producers, the acreage on the farm planted to feed grains for harvest shall be limited to the feed grain acreage base for the farm, as determined under paragraph (2) of this subsection, reduced by a total of not less than 15 per centum, consisting of a reduction of 50 per centum of such amount under the acreage limitation program and a reduction of 50 per centum of such amount under the diversion program. As a condition of eligibility for loans, purchases, and payments on the 1984 crop of feed grains, the producers on a farm must comply with the terms and conditions of the combined acreage limitation program and diversion program.";

(2) in paragraph (2), inserting immediately after the seventh sentence the following: "Notwithstanding any other provision of this paragraph, the acreage base to be used for the farm under the program for the 1984 crop of feed grains shall be established by the Secretary, taking into consideration the acreage base established for the farm for the 1983 crop, historical production data, crop rotation practices, and such other factors as the Secretary determines should be considered in determining a fair and equitable base."; and

(3) in paragraph (5)—

(A) in the first sentence, striking out "The Secretary may" and inserting in lieu thereof "Except as otherwise provided in this paragraph for the 1983 and 1984 crops of feed grains, the Secretary may"; and

(B) adding at the end thereof the following: "Notwithstanding the foregoing provisions of this paragraph, the Secretary shall implement a land diversion payment program for the 1984 crop of feed grains under which the Secretary shall make crop retirement and conservation payments to any producer of the 1984 crop of feed grains whose farm acreage to feed grains for harvest is reduced so that it does not exceed the feed grain acreage base for the farm less an amount equivalent to 7.5 per centum of the feed grain acreage base (or such greater percentage as may be prescribed by the Secretary) in addition to the reduction made under the acreage limitation program for the crop under paragraphs (1)(C) and (2) of this subsection, and the producer devotes to approved conservation uses an acreage of cropland equivalent to the reduction from the feed grain acreage base required under this paragraph. Such payments shall be made in an amount computed by multiplying (i) the diversion payment rate, by (ii) the farm program payment yield for the crop, by (iii) the additional acreage diverted under this paragraph. The diversion payment rate shall be established by the Secretary at not less than $1.50 per bushel for corn. The payment rate for grain sorghums, oats, and, if designated by the Secretary, barley shall be such rate as the Secretary determines is fair and reasonable in relation to the rate at which payments are made available for corn.".

CORN LOANS

SEC. 104. Notwithstanding any other provision of law, effective for each of the 1983 through 1985 crops of feed grains, the Secretary of Agriculture shall make available to producers participating in an annual program for any such crop of feed grains under the Agricultural Act of 1949 loans and purchases on corn under such program at not less than $2.75 per bushel.

ACREAGE REDUCTION PROGRAMS FOR THE 1984 CROP OF UPLAND COTTON

SEC. 105. Section 103(g)(9) of the Agricultural Act of 1949 (7 U.S.C. 1444(g)(9)) is amended by—

(1) in subparagraph (A)—

(A) in the first sentence, striking out "Notwithstanding any other provision of this subsection" and inserting in lieu thereof "Notwithstanding any other provision of law, except as provided in the second and third sentences of this paragraph";

(B) inserting immediately after the first sentence the following: "For the 1984 crop of upland cotton, the Secretary shall provide for a combination of an acreage limitation program under the subparagraph and a diversion program under subparagraph (B) of this paragraph under which, for participating producers, the acreage on the farm planted to upland cotton for harvest shall be limited to the upland cotton acreage base for the farm reduced by a total of not less than 15 per centum, consisting of a reduction of 50 per centum of such amount under the acreage limitation program and a reduction of 50 per centum of such amount under the diversion program. As a condition of eligibility for loans purchases, and payments on the 1984 crop of upland cotton, the producers on a farm must comply with the terms and conditions of the combined acreage limitation program and diversion program."; and

(C) inserting immediately after the sixth sentence the following: "Notwithstanding any other provision of this subparagraph, the acreage base to be used for the farm under the program for the 1984 crop of upland cotton shall be established by the Secretary, taking into consideration the acreage base established for the farm for the 1983 crop, historical production data, crop rotation practices, and such other factors as the Secretary determines should be considered in determining a fair and equitable base."; and

(2) in subparagraph (b)—

(A) in the first sentence, striking out "The Secretary may" and inserting in lieu thereof "Except as otherwise provided in this subparagraph for the 1984 crop of upland cotton, the Secretary may"; and

(B) adding at the end thereof the following: "Notwithstanding the foregoing provisions of this subparagraph, the Secretary shall implement a land diversion payment program for the 1984 crop of upland cotton under which the Secretary shall make crop retirement and conservation payments to any producer of the 1984 crop of upland cotton whose farm acreage planted to upland cotton for harvest is reduced so that it does not exceed the upland cotton acreage base for the farm less an amount equivalent to 7.5 per centum of the upland cotton acreage base (or such greater percentage as may be established by the Secretary) in addition to the reduction made under the acreage limitation program for the crop under subparagraph (A) of this paragraph, and the producer devotes to approved conservation uses an acreage of cropland equivalent to the reduction from the upland cotton acreage base required under this subparagraph. Such payments shall be made in an amount computed by multiplying (i) the diversion payment rate, by (ii) the farm program payment yield for the crop, by (iii) the additional acreage diverted under this subparagraph. The diversion payment rate shall be established by the Secretary at not less than 30 cents per pound.".

UPLAND COTTON LOANS

SEC. 106. Notwithstanding any other provision of law, effective for each of the 1983 through 1985 crops of upland cotton, the Secretary of Agriculture shall make available to producers participating in an annual program for any such crop of upland cotton under the Agricultural Act of 1949 loans under such program at such level as will reflect for Strict Low Middling one-and-one-sixteenth-inch upland cotton (micronaire 3.5 through 4.9) not less than 60 cents per pound.

ACREAGE REDUCTION PROGRAMS FOR THE 1984 CROP OF RICE

SEC. 107. Section 101(i)(5) of the Agricultural Act of 1949 (7 U.S.C. 1441(i)(5)) is amended by—

(1) in subparagraph (A)—

(A) in the first sentence, striking out "third and fourth sentences" and inserting in lieu thereof "third through sixth sentences";

(B) inserting immediately after the fourth sentence the following: "For the 1984 crop of rice, the Secretary shall provide for a combination of an acreage limitation program under this subparagraph and a diversion program under subparagraph (B) of this paragraph under which, for participating producers, the acreage on the farm planted to rice for harvest shall be limited to the rice acreage base for the farm reduced by a total of not less than 15 per centum, consisting of a reduction of 50 per centum of such amount under the acreage limitation program and a reduction of 50 per centum of such amount under the diversion program. As a condition of eligibility for loans, purchases, and payments on the 1984 crop of rice, the producers on a farm must comply with the terms and conditions of the combined acreage limitation program and diversion program."; and

(C) inserting immediately after the ninth sentence the following: "Nothwithstanding any other provision of this subparagraph, the acreage base to be used for the farm under the program for the 1984 crop of rice shall be established by the Secretary, taking into consideration the acreage base established for the farm for the 1983 crop, historical production data, crop rotation practices, and such other factors as the Secretary determines should be considered in determining a fair and equitable base."; and

(2) in subparagraph (B)—

(A) in the first sentence, striking out "The Secretary may" and inserting in lieu thereof "Except as otherwise provided in this subparagraph for the 1983 and 1984 crops of rice, the Secretary may"; and

(B) adding at the end thereof the following: "Notwithstanding the foregoing provisions of this subparagraph, the Secretary shall implement a land diversion payment program for the 1984 crop of rice under which the Secretary shall make crop retirement and conservation payments to any producer of the 1984 crop of rice whose farm acreage planted to rice for harvest is reduced so that it does not exceed the rice acreage base for the farm less an amount equivalent to 7.5 per centum of the rice acreage base (or such greater percentage as may be established by the Secretary) in addition to the reduction made under the acreage limitation program for the crop under subparagraph (A) of this paragraph, and the producer devotes to approved conservation uses an acreage of cropland equivalent to the reduction from the rice acreage base required under this subparagraph. Such payments shall be made in an amount computed by multiplying (i) the diversion payment rate, by (ii) the farm program payment yield for the crop, by (iii) the additional acreage diverted under this subparagraph. The diversion payment rate shall be established by the Secretary at not less than $3 per hundredweight.".

RICE LOANS

SEC. 108. Notwithstanding any other provision of law, effective for each of the 1983 through 1985 crops of rice, the Secretary of Agriculture shall make available to producers participating in an annual program for any such crop of rice under the Agricultural Act of 1949 loans and purchases under such program at not less than $8.55 per hundredweight.

TITLE II—SPECIAL PAYMENT-IN-KIND

LAND CONSERVATION PROGRAM

SEC. 201. Effective for the 1983 through 1985 crops, the Agricultural Act of 1949 is amended by adding at the end thereof a new title V as follows:

“TITLE V—SPECIAL PAYMENT-IN-KIND LAND CONSERVATION PROGRAM

“SEC. 501. Notwithstanding any other provision of this Act:

“(a) In order to encourage producers to reduce excessive production of agricultural commodities and promote soil and water conservation, the Secretary may formulate and carry out a special payment-in-kind land conservation program for each of the 1983 through 1985 crops. Under the program, the Secretary shall make special payments in kind available to producers who divert farm acreage from the production of agricultural commodities and devote such acreage to conservation uses, subject to such terms and conditions as the Secretary determines appropriate. Payments in kind may be made available for the diversion of (1) wheat, feed grain, upland cotton, or rice acreage, without regard to other provisions of law that are applicable to any of the annual programs for the 1983 through 1985 crops of such commodities, and (2) farm acreage devoted to other nonconserving commodities designated by the Secretary for inclusion in the program.

“(b) To be eligible for a payment in kind, a producer who participates in the program for any crop—

“(1) must divert from production and devote to conservation uses, in accordance with regulations issued by the Secretary, the acreage on the farm the producer agrees to place in the program for that crop;

"(2) must not knowingly devote an acreage on the farm to the production of commodities specified by the Secretary for the program for that crop in excess of the farm's combined acreage base for such commodities less the amount of acres the producer agrees to include in the program; and

"(3) must comply with other terms and conditions specified by the Secretary.

The Secretary shall establish commodity acreage bases for the farm of each producer participating in the program, taking into consideration acreage bases established under acreage limitations (if applicable), historical production data, crop rotation practices, summer fallowing (in the case of wheat), and such other factors as the Secretary determines should be considered in determining fair and equitable bases.

"(c) The Secretary shall determine the portion of a farm's combined acreage bases for the commodities specified by the Secretary for the program for a particular crop that shall be eligible for the program for the crop, taking into consideration the extent and type of participation in the program for the crop needed to assist in adjusting total national acreages of such commodities to desirable goals. No acreage on a farm in excess of the farm's combined acreage bases for the commodities specified by the Secretary for the program for a particular crop may be diverted from production under the program for the crop. The Secretary shall limit the total acreage diverted from production for a particular crop under the program in any county or local community so as not to affect adversely the economy of the county or local community.

"(d) Payment shall be in kind for acreage on a farm diverted from production for a particular crop and devoted to conservation uses under the program in an amount of the commodity involved equal to the number of acres so diverted from production multiplied by a percentage of the normal yield for the farm for the commodity involved, as established by the Secretary, that the Secretary determines appropriate to ensure adequate participation in the program for the crop involved.

"(e) Payments in kind shall be from stocks held by the Commodity Credit Corporation and shall be effected by the delivery by the Commodity Credit Corporation of the commodity involved to the producer at a warehouse or other similar facility located in the county in which the farm is located, by the transfer of negotiable warehouse receipts, or by such other method determined by the Secretary as appropriate to enable the producer efficiently and expeditiously to receive possession of the commodity: *Provided,* That, if Commodity

Credit Corporation stocks of the commodity are not readily available to effect full payment in kind to a producer participating in the program, the Secretary may substitute, fully or partially, payment in cash for payment in kind; and any such payment in cash shall equal, per unit of the commodity to which the producer is entitled as payment under the program, the basic county loan rate for the crop of the commodity involved. Commodities received by producers under the program may not be placed under loan or purchased under the annual commodity programs under this Act, nor may negotiable warehouse receipts or other evidences of ownership of the commodity received by producers under the program be used in such annual commodity programs.

"(f) To the extent that a portion of the acreage base for wheat, feed grains, upland cotton, or rice applicable to a farm under an acreage limitation imposed under an annual program under this Act is included in the program under this section, requirements under such acreage limitation shall be adjusted to reflect participation in the program under this section.

"(g) The regulations issued by the Secretary under clause (1) of subsection (b) of this section with respect to acreage to be devoted to conservation uses shall ensure protection of such acreage from weeds and wind and water erosion. The Secretary may permit, subject to such terms and conditions as the Secretary may prescribe, all or any part of such acreage to be devoted to sweet sorghum, hay and grazing, or the production of guar, sesame, safflower, sunflower, castor beans, mustard seed, crambe, plantago ovato, flaxseed, triticale, rye, or other commodity, if the Secretary determines that such production is needed to provide an adequate supply of such commodities and will not affect farm income adversely.

"(h) An operator of a farm desiring to participate in the program for a crop under this section shall execute an agreement with the Secretary providing for such participation not later than such date as the Secretary may prescribe. The Secretary may, by mutual agreement with the producers on the farm, terminate or modify any such agreement if the Secretary determines such action necessary because of an emergency created by drought or other disaster or to prevent or alleviate a shortage in the supply of agricultural commodities.

"(i) The Secretary may issue such regulations as the Secretary determines necessary to carry out the provisions of this section.

"(j) The Secretary shall carry out the program authorized by this section through the Commodity Credit Corporation.

"(k) The Secretary shall provide adequate safeguards to protect the interests of tenants and sharecroppers, including provision for the sharing, on a fair and equitable basis, of payments in kind or cash payments made under this section.

"(l) The provisions of section 8(g) of the Soil Conservation and Domestic Allotment Act (relating to assignments of payments) shall be applicable to payments in kind and cash payments made under this section.

"(m) The authority and program under this section shall be in addition to, and not in place of, any authority granted to the Secretary or the Commodity Credit Corporation, or any program, established under any other provisions of law.".

TITLE III—EXPANSION OF INTERNATIONAL MARKETS FOR, AND THE DISPOSITION OF, UNITED STATES AGRICULTURAL COMMODITIES

SEC. 301. The Agriculture and Food Act of 1981 is amended by inserting after section 1209 a new section as follows:

"EXPANSION OF UNITED STATES AGRICULTURAL EXPORTS THROUGH THE USE OF COMMODITIES ACQUIRED BY THE COMMODITY CREDIT CORPORATION

"SEC. 1209A. (a) Notwithstanding any other provision of law, the Secretary of Agriculture shall formulate and carry out a program under which commodities acquired by the Commodity Credit Corporation through price support operations may be tendered at no cost to United States exporters, United States processors, and foreign nations to encourage additional export sales of United States agricultural commodities and the products thereof, thereby assisting in the development, maintenance, and expansion of international markets for those commodities and products.

"(b) In carrying out the program authorized by this section, the Secretary shall—

"(1) take reasonable precautions to ensure that the stocks of the Commodity Credit Corporation made available to participants in the program are used only in areas of the world where sales in addition to the usual marketings of the United States can be accomplished or where the stocks will enable United States exporters to be competitive in price with the exporters of other nations;

"(2) take reasonable precautions to prevent the resale or transshipment to other nations, or use for other than domestic use, of the stocks of the Commodity Credit Corporation made available to participants in the program; and

"(3) ensure that United States processors of agricultural commodities are compensated through donation of commodities owned by the Commodity Credit Corporation in any case where imports into the United States of products made, in whole or in part, with commodities made available to United States exporters and foreign nations under this section would, in the absence of such donations, place the United States processors at an unfair competitive disadvantage.

"(c) The Secretary of Agriculture shall carry out the program authorized by this section through the Commodity Credit Corporation.

"(d) The Secretary of Agriculture may issue such regulations as the Secretary deems necessary to carry out this section.

"(e) Notwithstanding any other provision of this section, the Secretary of Agriculture shall not tender any commodities of the Commodity Credit Corporation under this section to United States exporters or foreign nations for use in any nation not eligible to receive nondiscriminatory trading treatment with respect to its products (most-favored-nation treatment).

"(f) The authority provided by this section shall be in addition to, and not in place of, any authority granted to the Secretary of Agriculture or the Commodity Credit Corporation under any other provisions of law.".

EXPANDED USE OF COMMODITY CREDIT CORPORATION STOCKS IN CARRYING OUT PUBLIC LAW 480

SEC. 302. Section 409 of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1736c) is amended by—

(1) inserting "(a)" after the section designation; and

(2) adding at the end thereof a new subsection as follows:

"(g) Notwithstanding any other provision of law, the President may use commodities acquired by the Commodity Credit Corporation through price support operations in increasing the level of agricultural exports under titles I and III of this Act. However, the use of such Commodity Credit Corporation commodities is subject to the condition that they be in addition to the level of exports that can be financed under the funding provided in appropriation Acts.".

EXPANDED AUTHORITY FOR THE DONATION ABROAD OF COMMODITY CREDIT CORPORATION STOCKS

SEC. 303. Section 416 of the Agricultural Act of 1949 (7 U.S.C. 1431) is amended by amending the penultimate sentence thereof to read as follows: "Such dairy products and other commodities acquired by the Commodity Credit Corporation through price support operations may also be donated through foreign governments and public and nonprofit private humanitarian organizations for the assistance of needy persons outside the United States, and the Commodity Credit Corporation may pay, with respect to commodities so donated, reprocessing, packaging, transporting, handling, and other charges, including the cost of overseas delivery.".

QUESTIONS FROM SENATOR HUDDLESTON AND THE DEPARTMENT'S ANSWERS THERETO

Question 1. What effect would this program have on the farm income and commodity prices, compared to operation of the 1983 commodity programs as already announced?

Answer. The objectives of the PIK program are to reduce production, reduce burdensome stocks, and avoid increased budget outlays that would otherwise be necessary under the price support program. Farmers can expect to receive the same or greater net returns while stock adjustments are occurring. Commodity prices, though not likely to increase appreciably in the near term, should firm as buyers realize that stocks are being reduced. Once stocks are reduced, substantial opportunities for price increases will exist.

A copy of the final regulatory impact statement analysis is included for the record which gives a more complete response to the question.

Question 2. Do your anticipate difficulty in sufficiently reducing grain stocks within one crop year? How does a multi-year program to reduce grain stocks and increasing demand compare to a one-year program such as the one you contemplate?

Answer. No, we do not anticipate difficulty in reducing grain stocks sufficiently within one crop year. Total ending stocks of wheat, corn and sorghum for 1983-84 are expected to be reduced by 1 billion bushels from levels expected under the previously announced 1983-84 program. Upland cotton stocks will be reduced by 2.7 million bales relative to earlier expectations with rice stocks reduced by about 20 million hundredweight.

The PIK program is designed to reduce 1983 crop acreages and supplies. Given the uncertainties of world supply and demand, programs such as PIK need to be examined on a year-to-year basis. The appropriateness of a PIK program for 1984 will be assessed at the time USDA formulates and develops the 1984 commodity programs.

A copy of the "Fact Sheet" giving projected stock reductions by program crop is included for the record.

Question 3. The farm programs for the 1983 crops include a provision for an advance payment of 50 percent of diversion payments. Signup for the 1983 program of wheat and feed grains began October 1. Can you tell us how many farmers have signed up for the programs so far and the amount of advance diversion payments already made? How will you handle the advance payments made so far if you implement a payment-in-kind program for the 1983 crops?

Answer. The following table shows what was signed up as of December 1982. Additional reports have been suspended until after signup ends on March 11, 1983.

Crop	Base acres enrolled (millions)	Percent of total base acres
Wheat	24.4	27
Corn	14.9	17.9
Sorghum	3.8	21

Advance deficiency and diversion payments made through December 31, 1982, total $168.5 million for wheat; $181.1 million for corn; $19.4 million for sorghum; $6.3 million for barley; and 800,000 for oats.

Advance payments made that exceed the final payments on a farm must be refunded. No interest charges will apply on any refunds as a result of PIK participation; however, if a refund is not made within 30 days from the date the refund was requested, the producer will be subject to late payment charges.

Question 4. What will the payment-in-kind program cost?

Answer. Commodity Credit Corporation (CCC) outlays are expected to be reduced by more than $3 billion during fiscal years 1983 and 1984, from the previously announced program, because of PIK.

Question 5. Mr. Secretary, you state that the payment-in-kind program you described can be largely carried out under existing authorities available to the Department. Can you provide for the record the specific legal authorities that permit you to establish such a program?

Answer. The program will be conducted pursuant to the authority of the Agricultural Act of 1949, as amended, and the Commodity Credit Corporation Charter Act.

The Agricultural Act of 1949, as amended by the Agriculture and Food Act of 1981, authorizes the Secretary to make land diversion payments to producers of wheat, feed grains, upland cotton and rice if the Secretary determines that the payments are necessary to assist in adjusting the total national acreage of the commodities to desirable goals. The Charter Act gives the Corporation broad authority to support the price of agricultural commodities, stabilize agricultural commodity markets and remove and dispose of agricultural surpluses.

Question 6. Mr. Secreatary, can you describe the benefits of a payment-in-kind program, such as the one you describe, for a hog producer who grows grain for feed, and compare such benefits to those of a hog producer who feeds purchased grain?

Answer. The PIK program, in conjunction with the initially announced programs, has been designed to maintain an adequate supply for domestic and foreign markets while providing producers a tool to act together to reduce production, government-held stocks and inventories. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced. The operation of hog producers, whether they grow their own feed or purchase it, should continue under normal conditions knowing that the feed grain supply will be sufficient for their operations. Hog producers who grow grain for feed can receive PIK grain to help meet their feed requirements, if they so choose. Hog producers who feed purchased grain will find that PIK grain will help to ensure an adequate market supply of feed grains to meet their needs.

Questions From Senator Boren and the Department's Answers Thereto

Question 1. How much acreage must be idled to get wheat ending stocks down to less than one billion bushels; to get corn down to 1.5 billion bushels?

Answer: To get 1983-84 wheat stocks down to less than one billion bushels would require idling about 45 million acres or one-half of the total wheat acreage base. For corn, more than 35 million acres (about 45 percent of the total acreage base) would need to be idled to bring stock down to 1.5 billion bushels.

Question 2. We've had a problem with the legality of warehouse receipts when a warehouse declares bankruptcy. Would anything like this have an effect on the certificates mentioned here? Will these certificates be valid reagardless?

Answer: CCC will bear the loss of any warehouse bankrutcy so long as title to the grain remains with CCC. However, once the producer takes title to the grain, he assumes any risk of subsequent bankruptcy. The producer has up to five months to take title to the grain.

Question: 3. Would farmers be able to graze-out acreage entered into the payment-in-kind program?

Answer: Yes, for acreage devoted to winter wheat only. Since the PIK program was announced after winter wheat had been planted, wheat acreages planted before January 12, 1983, may be designated to meet any conservation use requirement (acreage reduction, paid diversion or PIK) for any program provided the farm is participating in the PIK program for any crop. Such designated acreage may be grazed without regard to the 6-month nongrazing period and hayed before the disposal deadline established for the county.

However, the conservation use acreage for any crop planted after the January 12 announcement can be grazed except during the six principal growing months. This 6-month period between February 28 through October 31 will be determined by the local ASC committee. Mechanical harvesting of any crop will be prohibited.

Question: 4. What would be the forfeiture procedures for CCC to take ownership of loan and farmer-owned reserve grain?

Answer: Producers participating in the PIK program with loans outstanding as of March 11 may not redeem or forfeit loan quantities that would result in an outstanding loan amount less than their PIK. However, producers who participate cannot forfeit these loan amounts after March 11 will receive storage from CCC from loan maturity up to 5 months following the beginning of PIK availability.

If a PIK participant must liquidate regular or reserve lo[illegible] on 75 percent of the quantity represented in an individual bin or warehouse for PIK purposes, the balance of the quantity pledged as collateral for loan which is remaining in the bin or receipt, not to exceed 5,000 bushels (or the equivalent number of pounds) of the commodity, may be forfeited to CCC.

Question 5. Would payment-in-kind payments be phased-in State by State or would there be one date for issuing certificates nationally?

Answer. PIK commodities will be made available to participating producers beginning with the normal harvest for the crop in their area. Thus, southern areas where harvest occurs first, would be eligible to receive their PIK first.

A notice sent to the ASCS' State and county offices showing the beginning PIK availability dates for wheat, corn and grain sorghum, rice and upland cotton is included for the record.

Question 6. The Secretary has broad authority to operate a number of kinds of programs to limit production next year. Why are you advocating this particular program? Does it simplify program management? Clearly American farmers are in need of assistance—is this program more likely to provide help to hard-pressed farmers than other programs you may have the authority to offer? Will the program you propose provide assistance more quickly?

Answer. The PIK program will reduce stocks while cutting production; promote farm income while reducing costs to the Federal Government and, thus, the U.S. taxpayer; minimize CCC loan forfeitures by utilizing outstanding loans for PIK; and reduce wheat and feed grain stocks to more desirable levels by using these stocks for the PIK. Due to lower production costs in 1983, producers can expect to receive the same or greater net returns. As stocks are reduced to more reasonable levels, producers can expect opportunities for significant price increases and increased net returns.

Question 7. How much per bushel will you have to pay farmers to reduce plantings of the 1983 crops to achieve the level of production necessary to reduce carryover stocks?

Answer. Compensation for the 10 to 30 PIK will be 95 percent for wheat and 80 percent for corn, grain sorghum, rice, and upland cotton times the farm program yeild times the PIK acreage.

[The following material was supplied by the Department of Agriculture:]

Exhibit 1

PIK AVAILABILITY DATES AND COTTON AND RICE REGIONAL GRADES AND COOPERATIVE CODES

WHEAT

The following States have a single availability date.
Alabama, June 15.
Alaska, September 15.
Arizona, June 15.
Arkansas, June 15.
Connecticut, August 1.
Delaware, July 15.
Florida, June 1.
Georgia, June 15.
Idaho, August 1.
Illinois, July 1.
Indiana, July 15.
Iowa, July 15.
Kansas, July 1.
Kentucky, July 1.
Louisiana, June 1.
Maine, August 15.
Maryland, July 15.
Massachusetts, August 1.
Michigan, August 15.
Minnesota, August 15.
Mississippi, June 15.
Missouri, July 1.
Montana, August 15.
Nebraska, July 15.
Nevada, August 1.
New Hampshire, August 15.
New Jersey, August 1.
New Mexico, July 1.
New York August 15.

North Carolina, June 15.
North Dakota, August 15.
Ohio, July 15.
Oklahoma, July 1.
Oregon, August 1.
Pennsylvania, July 15.
Rhode Island, August 1.
South Carolina, June 15.
South Dakota, August 1.
Tennessee, July 1.
Utah, August 1.
Vermont, August 15.
Virginia, July 1.
Washington, August 1.
West Virginia, July 15.
Wisconsin, August 15.
Wyoming, August 1.
The following States have multiple availability dates:

California.

The following county has an availability date of June 1: Imperial.

The following counties have an availability date of August 1: Del Norte; Humboldt; Lassen; Modoc; Plumas; Shasta; Sierra; Siskiyou; and Trinity.

The remaining counties have an availability date of June 15..

Colorado.

The following counties have an availability date of July 15: Adams; Arapahoe; Baca; Bent; Boulder; Cheyenne; Clear Creek; Crowley; Denver; Douglas; Elbert; El Paso; Gilpin; Huerfano; Jefferson; Kiowa; Kit Carson; Larimer; Las Animas; Lincoln; Logan; Morgan; Otero; Phillips; Prowers; Pueblo; Sedgwick; Washington; Weld; and Yuma.

The remaining counties have an availability date of August 1.

Texas

The following counties have an availability date of June 1:

Aransas; Atascosa; Austin; Bandera; Bastrop; Bee; Bexar; Blanco; Brazoria; Brazos; Brooks; Burleson; Caldwell; Calhoun; Cameron; Chambers; Colorado; Comal; DeWitt; and Dimmit.

Duval; Edwards; Fayette; Fort Bend; Frio; Galveston; Gillespie; Goliad; Gonzales; Grimes; Guadalupe; Haradin Harris; Hays; Hidalgo; Jackson; Jasper; Jefferson; Jim Hogg; and Jim Wells.

Karnes; Kendall; Kenedy; Kerr; Kinney; Kleberg; LaSalle; Lavaca; Lee; Liberty; Live Oak; McMullen Madison; Matagorda; Maverick; Medina; Montgomery; Nueces; Newton; and Orange.

Polk; Real; Refugio; San Jacinto; San Patricio; Starr; Trinity; Tyler; Uvalde; Val Verde; Victoria; Walker; Waller; Washington; Webb; Wharton; Willacy Wilson; Zapata; and Zavala.

The following counties have an availability date of July 1:

Andrews; Armstrong; Bailey; Baylor; Borden; Briscoe; Carson; Castro; Childress; Cochran; Collingsworth; Cottle; Crosby; Dallam; Dawson; Deaf Smith; Dickens; Donley; Floyd; Foard; Gaines; Garza; Gray; Hale; Hall; and Hansford.

Hardeman; Hartley; Hemphill; Hockley; Howard; Hutchinson;' King; Knox; Lamb; Lipscomb; Lubbock; Lynn; Martin; Moore; Motley; Ochiltree; Oldham; Parmer Potter; Randall; Roberts; Sherman; Swisher; Terry; Wheeler; Wilbarger; and Yoakum.

The remaining counties have an availability date of June 15.

CORN AND GRAIN SORGHUM

The following states have a single availability date:
Alabama, October 1.
Arizona, October 1.
Arkansas, October 1.
Colorado, October 15.
Connecticut, November 1.
Delaware, October 15.

Florida, August 15.
Georgia, October 1.
Idaho, November 1.
Illinois, October 15.
Indiana, October 15.
Iowa, October 15.
Kansas, October. 15.
Kentucky, October 15.
Louisiana, September 15.
Maine, November 1.
Maryland, October 15.
Massachusetts, November 1.
Michigan, November 1.
Minnesota, November 1.
Mississippi, October 1.
Missouri, October 15.
Montana, November 1.
Nebraska, October 15.
Nevada, October 15.
New Hampshire, November 1.
New Jersey, October 15.
New Mexico, October 1.
New York, November 1.
North Carolina, October 1.
North Dakota, November 1.
Ohio, October 15.
Oklahoma, October 1.
Oregon, November 1.
Pennsylvania, October 15.
Puerto Rico, August 15.
Rhode Island, November 1.
South Carolina, October 1.
South Dakota, November 1.
Tennessee, October 1.
Utah, October 15.
Vermont, November 1.
Virginia, October 15.
Washington, November 1.
West Virginia, October 15.
Wisconsin, November 1.
Wyoming, November 1.

The following states have multiple availability dates:

California

The following counties have an availability date of October 15: Del Norte; Humboldt; Lassen; Modoc; Plumas; Shasta; Sierra; Siskiyou; Trinity.

The remaining counties have an availability date of October 1.

Texas

The following counties have an availability date of **June 15**: Cameron; Hidalgo; Starr; and Willacy.

The following counties have an availability date of July 15: Brooks; Duval; Jim Hogg; Jim Wells; Kenedy; Kleberg; LaSalle; McMullen; Nueces; San Patricio; Webb; and Zapata.

The following counties have an availability date of August 1: Aransas; Atascosa; Austin; Bandera; Bastrop; Bee; Bexar; Blanco; Brazoria; Brazos; Burleson; Caldwell; Calhoun; Chambers; Colorado; Comal; DeWitt; Dimmit; Edwards; Fayette; Fort Bend; Frio; Galveston; Gillespie; Goliad; Gonzales; Grimes; Guadalupe; Hardin; Harris; Hays; and Jackson.

Jasper; Jefferson; Karnes; Kendall; Kerr; Kinney; Lavaca; Lee; Liberty; Live Oak; Madison; Matagorda; Maverick; Medina; Montgomery; Newton; Orange; Polk; Real; Refugio; San Jacinto; Trinity; Tyler; Uvalde; Val Verde; Victoria; Walker; Waller; Washington; Wharton; Wilson and Zavala.

The following counties have an availability date of October 1:

Andrews; Armstong; Bailey; Baylor; Borden; Briscoe; Carson; Castro; Childress; Cochran; Collingsworth; Cottle; Crosby; Dallam; Dawson; Deaf Smith; Dickens; Donley; Floyd; Foard; Gaines; Garza; Gray; Hale; Hall; and Hansford.

Hardeman; Hartley; Hemphill; Hockley; Howard; Hutchinson; King; Knox; Lamb; Lipscomb; Lubbock; Lynn; Martin; Moore; Motley; Ochiltree; Oldham; Parmer; Potter; Randall; Roberts; Sherman; Swisher; Terry; Wheeler; Wilbarger; and Yoakum.

The remaining counties have an availability date of September 1.

The following states have a single availability date:

Alabama, October 1.
Arizona, October 15.
Arkansas, October 1.
California, October 15.
Florida, September 1.
Georgia, October 1.
Kentucky, October 15
Louisiana, September 15.
Mississippi, October 1.
Missouri, October 15.
Nevada, October 15.
New Mexico, October 15.
North Carolina, October 1.
Oklahoma, October 15.
South Carolina, October 1.
Tennessee, October 1.
Virginia, October 15.

The following state had multiple availability dates.

Texas

The following counties have an availability date of July 15: Cameron; Hidalgo; Starr; and Willacy.

The following counties have an availability date of August 15: Brooks; Duval; Jim Hogg; Jim Wells; Kenedy; Kleberg; LaSalle; McMullen; Nueces; San Patricio; Webb; and Zapata.

The following counties have an availability date of September 1: Aransas; Atascosa; Austin; Bandera; Bastrop; Bee; Bexar; Blanco; Brazoria; Brazos; Burleson; Caldwell; Calhoun; Chambers; Colorado; Comal; DeWitt; Dimmit; Edwards; Fayette; Fort Bend; Frio; Galveston; Gillespie; Goliad; Gonzales; Grimes; Guadalupe; Hardin; Harris; Hays; and Jackson.

Jasper; Jefferson; Karnes; Kendall; Kerr; Kinney; Lavaca; Lee; Liberty; Live Oak; Madison; Matagorda; Maverick; Medina; Montgomery; Newton; Orange; Polk; Real; Refugio; San Jacinto; Trinity; Tyler; Uvalde; Val Verde; Victoria; Walker; Waller; Washington; Wharton; Wilson; and Zavala.

The following counties have an availability date of October 15:

Andrews; Armstrong; Bailey; Baylor; Borden; Briscoe; Carson; Castro; Childress; Cochran; Collingsworth; Cottle; Crosby; Dallam; Dawson; Deaf Smith; Dickens; Donley; Floyd; Foard; Gaines; Garza; Gray; Hale; Hall; and Hansford.

Hardeman; Hartley; Hemphill; Hockley; Howard; Hutchinson; King; Knox; Lamb; Lipscomb; Lubbock; Lynn; Martin; Moore; Motley; Ochiltree; Oldham; Parmer; Potter; Randall; Roberts; Sherman; Swisher; Terry; Wheeler; Wilbarger; and Yoakum.

The remaining countries have an availability date of October 1.

RICE

Arkansas, September 1.
California, September 15.
Florida, August 1.
Kentucky, September 15.
Louisiana, August 1.
Mississippi, September 15.
Missouri, September 15.
Oklahoma, September 15.
Puerto Rico, August 1.
South Carolina, September 15.
Tennessee, September 15.
Texas, August 1.

Exhibit 2

RICE: REGIONAL GRADES, TYPES AND MILLING OUTTURNS FOR PIK PROGRAM

The following States have a single grade, type and milling outturn:
Arkansas, 2 L 56/68.
California, 1 M 48/69.
Florida, 2 L 56/67.
Mississippi, 2 L 54/67.
Missouri, 2 L 56/68.
North Carolina, 2 L 55/70.
Oklahoma, 2 L 56/68.
Puerto Rico, 2 M 56/69.
South Carolina, 2 L 55/70.
The following States have multiple grades, types, and milling outturns.

Louisiana

The following counties are 2 L 56/69:
Acadia; Allen; Avoyelles; Beauregard; Calcasieu; Cameron; Evangeline; Iberia; Jefferson Davis; Lafayette; Rapides; St Landry; St Martin (both parts); St Mary; Vermillion; and Vernon.
The remaining counties are 2 L 54/67.

Texas

The following counties are 2 L 56/68: Bowie; Franklin; Hopkins; and Red River.
The remaining counties are 1 L 57/70.

UPLAND COTTON: REGIONAL GRADES AND STAPLES FOR PIK PROGRAM

The following States have a single grade and staple:
Alabama, 5035.
Arkansas, 5035.
Florida, 5035.
Georgia, 5035.
Kansas, 4232.
Kentucky, 5035.
Louisiana, 5035.
Mississippi, 5035.
Missouri, 5035.
Nevada, 4036.
North Carolina, 5035.
South Carolina, 5035.
Tennessee, 5035.
Virgina, 5035.
The following States have multiple grades and staples.

Arizona

The following counties have a cotton grade and staple of 5035: Coshise; Graham; and Greenlee.
The remaining coaunties have a cotton grade and staple of 4134.

California

The following counties have a cotton grade and staple of 4134: Imperial; Riverside; San Bernardino; and San Diego.
The remaining counties have a cotton grade and staple of 4036.

New Mexico

The following counties have a cotton grade and staple of 4232: Lea; Roosevelt; Curry; and Quay.
The remaining counties have a cotton grade and staple of 5035.

Oklahoma

The following counties have a cotton grade and staple of 5133: Jackson; Harmon; and Tillman.

The remaining counties have a cotton grade and staple of 4232.

Texas

The following counties have a cotton grade and staple of 5035.

Brewster; Brooks; Cameron; Crane; Culberson; Ector; El Paso; Hidalgo; Hudspeth; Jeff Davis; Jim Hogg; Kenedy; Loving; Pecos; Presidio; Reeves; Starr; Terrell; Ward; Willacy; Winkler; and Zapata.

The following counties have a cotton grade and staple of 5133.

Angelina; Aransas; Atascosa; Austin; Bandera; Bastrop; Bee; Bell; Bexar; Blanco; Bosque; Brazoria; Brazos; Burleson; Burnet; Caldwell; Calhoun; Chambers; Colorado; Comal; Coryell; Crockett; DeWitt; and Dimmit.

Duval; Edwards; Falls; Fayette; Fort Bend; Frio; Galveston; Gillespie; Goliad; Gonzales; Grimes; Guadalupe; Hamilton; Hardin; Harris; Hays; Houston; Jackson; Jasper; Jefferson; Jim Wells; Karnes; Kendall; and Kerr.

Kimble; Kinney; Kleberg; Lampasas; LaSalle; Lavaca; Lee; Leon; Liberty; Live Oak; Llano; McCulloch; McLennan; McMullen; Madison; Mason; Matagorda; Maverick; Medina; Menard; Milam; Montgomery; Newton; and Nueces.

Orange; Polk, Real; Refugio; Robertson; Sabine; San Augustine; San Jacinto; San Patricio; San Saba; Sutton; Travis; Trinity; Tyler; Uvalde; Val Verde; Victoria; Walker; Waller; Washington; Webb; Wharton; Williamson; Wilson; and Zavala.

The remaining counties have a cotton grade and staple of 4232.

Exhibit 3

COTTON AND RICE COOPERATIVE CODES

RICE

Cooperative and Code

American Rice, Inc., 48-801-6.
Arkansas Rice Growers Cooperative Association, 05-801-7.
Farmers Rice Cooperative, 05-801-6.
Producers Rice Mill, Inc., 05-803-3.
Rice Growers Association of California, 06-802-4.

COTTON

Cooperative and Code

American Cotton Growers, 48-802-4.
Autauga Quality Cotton Association, 01-801-1.
Catcot, Ltd., 06-804-0.
Carolinas Cotton Growers Association, 37-801-9.
Chattachoochee Valley Quality Cotton Association, 01-804-5.
Colbert Quality Cotton Association, 01-803-7.
Cotton Producers Marketing Association, 22-804-0.
Plains Cotton Cooperative Association, 48-803-2.
Producers Marketing Association, 48-804-0.
Southwestern Irrigated Cotton Growers Association, 48-805-7.
Staple Cotton Cooperative Association, 28-801-0.
Tuscaloosa County Improvement Association, 01-802-9.

FINAL REGULATORY IMPACT ANALYSIS

I. TITLE

Payment-in-kind Program for the 1983 Crop Year: Wheat, Corn, Sorghum Rice, and Upland Cotton; and the Farmer Owner Reserve (FOR) Program for Wheat, Corn, Sorghum, Barley and Oats.

II. ACTION, GROUPS IMPACTED AND DURATION

A. *Action.* The 1983 crop programs for wheat, corn, sorghum, rice and upland cotton are revised to include a supplemental payment-in-kind (PIK) program. Under the PIK program, the Commodity Credit Corporation (CCC) will enter into contracts with producers under which producers who divert acreage from the production of 1983 crops of wheat, corn, sorghum, upland cotton or rice and devote the acreage to approved conservation uses will be compensated in the form of quantities of those commodities. The acreage would be in addition to that which the producer has agreed to take out of production under the 1983 acreage reduction and cash land diversion programs previously announced.

Major provisions of PIK are:

1. Acreage Diversion. Any producer may enter into a contract to divert not less than 10 percent nor more than 30 percent of the farm acreage base for any crop. In addition, producers may submit bids for a contract to divert 100 percent of the farm acreage base for any crop. Bids must be in terms of percentage of the farm's yield for the crop which the producers consider to be an acceptable level of compensation. The Department will determine the number of acres for which bids will be accepted for each commodity in each county, based on sign up, particular supply/demand situations, conditions in local areas, and other relevent factors. In no event will more than 50 percent of the total acreage bases for a commodity in a county be taken out of production under this and the previously announced 1983 acreage reduction and cash land diversion programs.

2. Compensation. In the case of contracts for the diversion of between 10 and 30 percent of the acreage base of a commodity, the quantity of the commodity received as compensation will be the acreage diverted times the farm's yield for the commodity, multiplied by 95 percent for wheat and 80 percent for corn, sorghum, upland cotton, and rice. These rates are designed to provide the producer, on average, with a net return at least equal to what he would have had if he were not enrolled in the PIK program.

3. Distribution of PIK.

(a) Producers with outstanding FOR loans obtained before January 12, 1983 or regular price support loans for which they have pledged as security a commodity which the Department is obligated to pay them under PIK, must sell the commodity to the Department, up to the quantity the Department is obligated to pay them, at a price equal to the cost of liquidating the loan. In the case of FOR loans, the price will be reduced by the amount of unearned advance storage payments. Further, in the case of farm stored FOR loans, the price will include additional compensation to take account of long term storage related commitments the producer may have undertaken. The commodities sold to the Department will then be paid to the producer.

(b) Producers with no outstanding CCC loans will receive commodities from warehouses designated by CCC. In all cases, proper adjustments for grade and other characteristics affecting quality will be made.

The Department will pay commodities which it owes a producer upon request at any time during the five month period beginning on the normal harvest date for the commodity in the producer's areas. These dates will be established by the Department on a county-by-county basis.

4. Other Provisions. Additional administrative and operating provisions are discussed in the Interim Rule published in the *Federal Register.*

Additionally, provisions of the 1983 crop farmer-owned reserve (FOR) programs for wheat, corn, sorghum, barley and oats are:

1. Reserve loan: Wheat, $3.65 per bushel; Corn, $2.65 per bushel; Sorghum, $2.52 per bushel; Barley, $2.16 per bushel; and Oats, $1.36 per bushel.
2. Interest Rate: At prevailing CCC rate for first year of contract, waived second and third years.
3. Storage Payment: $.265 per bushel except for $.20 for oats.
4. Reserve Entry Date: After the 9-month regular loan period.
5. FOR Quantity: No limit.

B. *Groups Impacted.*

1. Wheat, Corn and Sorghum—Groups directly affected include feed grain, soybean, and wheat producers. Those indirectly affected include livestock, poultry, and dairy industries; agribusinesses associated with merchandising seed, feed, fertilizer, fuel, machinery, and grain storage equipment; grain processors lenders; exporters; importers; domestic consumers; and rural communities generally.

2. Rice—Groups impacted include rice producers and cooperative rice mills, rice millers, associated rice agribusinesses, foreign and domestic rice consumers, rice exporters, input suppliers and rural economies in rice production areas.

3. Upland Cotton—Groups directly impacted include cotton producers, ginners, warehouse operators, spinners, cottonseed crushers, shippers and textile manufacturers. Those indirectly impacted are agribusinesses associated with merchandising seed, feed, fertilizer, fuel and machinery and rural communities and consumers generally.

C. *Duration*

This program applies to the 1983 crops of wheat, corn, sorghum, rice and upland cotton.

III. PURPOSE AND NEED FOR ACTION

A. *Legislative Authority.* The program will be conducted pursuant to the authority of the Agricultural Act of 1949, as amended, and the Commodity Credit Corporation Charter Act. The Agricultural Act of 1949, as amended by the Agriculture and Food Act of 1981, authorizes the Secretary to make land diversion payments to producers of wheat, feed grains, cotton and rice if the Secretary determines that that payments are necessary to assist in adjusting the total national acreage of the commodities to desirable goals. The Charter Act gives the Corporation broad authority to support the price of agricultural commodities, stabilize agricultural commodity markets and remove and dispose of agricultural supluses.

B. *Summary of Goals.* The goals of the 1983 PIK program are to reduce excessive stocks while providing adequate supplies for domestic consumption and world trade, support farm income and enhance prospects for a future market-led recovery in the farm economy, combat inflation hold down Federal costs, and conserve natural resources.

Background: Record production, coupled with a weak worldwide demand for wheat, feed grains, rice, and cotton due to the global recession and severe financial problems of some of our major foreign customers, have created undesirable surplus. Acreage reduction and land diversion programs have already been instituted for the 1983 crops of these commodities under provisions of the Agricultural Act of 1949, as amended. Producers participating in those programs will reduce planted acreage for wheat, feed grains, cotton and rice by at least 20%. However, the following significant changes have occurred since these programs were announced for wheat, corn, sorghum, and upland cotton:

Wheat: Total supplies for 1982/83 have increased three percent. Ending stocks are now projected at a record 1.5 billion bushels, up more than 20 percent. Export projections have been reduced from 1.775 billion bushels to 1.6 billion bushels.

Corn: Total supplies for 1982/83 have increased two percent. Ending stocks are now projected at 3.5 billion bushels, up 22 percent. Export projections have been reduced from 2.35 billion to 2.1 billion bushels.

Sorghum: Although total supplies for 1982/83 are virtually unchanged, a reduction in exports from 275 million to 260 million bushels will contribute to a 12 percent increase in ending stocks.

Upland Cotton: Estimates of 1982-crop production have increased from 10.9 million to 12.0 million bales. At the same time, reduced export prospects have lowered estimates of total 1982 disappearance from 11.8 million to 10.8 million bales. These factors have combined to raise estimated 1982/83 ending stocks from 5.7 million to 7.9 million bales, the highest level since 1966.

Therefore, even with the 1983 programs previously announced, the supply of these commodities as well as rice, will greatly exceed demand. Accordingly, the Department has determined that the diversion of additional acreage from the production of such crops is necessary to adjust the total national acreage of such commodities to desirable goals and that producers should be compensated by receipt of like commodities.

IV. OPTIONS CONSIDERED

A. *Acreage Adjustment Programs.*

1. Leave the previously announced commodity programs unchanged.
2. Institute a PIK program to supplement announced programs. (Selected Option)

The PIK Program would allow participants to further reduce their 1983 plantings (by 10 to 30 percent of the established acreage base or the whole farm base, on a bid basis, if determined necessary to achieve program objectives) and receive as compensation commodities rather than monetary payments.

B. *Farmer-Owned Reserve (FOR) Program.*

1. Implement 1983 crop FOR program provisions the same as that in effect for the 1982 crop.
2. Eliminate reserve loan premiums (lower reserve loans to applicable regular loan levels); delay entry into reserve; maintain storage payment and interest provisions the same as the previous year; place no upper limit on reserve quantities. (Selected Option)

The Secretary shall formulate and administer a reserve program for wheat and feed grains when such commodities are in abundant supply. In carrying out the FOR, the Secretary shall provide for original (direct entry) or extended (delayed entry) price support loans. Reserve loans shall be made at such levels as the Secretary determines appropriate, but not less than the regular loan rates. Storage payments may be set at levels deemed appropriate to encourage program participation. The Secretary shall announce the terms and conditions of the FOR program as far in advance as practicable. In announcing the FOR, the Secretary shall specify the quantity of wheat and feed grains to be stored under the FOR. Upper limits may be placed on reserve quantities but they may not be less than seven hundred million bushels for wheat and one billion bushels for feed grains.

V. USDA AND OTHER FEDERAL COSTS

Based on current projections of participation, supply, and utilization for the 1983 crop, the PIK program would result in significant savings from the programs as currently announced. The following table shows the cost savings for fiscal years 1983 and 1984.

ESTIMATED CCC OUTLAY SAVINGS FROM PIK PROGRAM AND FOR CHANGES (IN FISCAL YEARS)

[Millions of dollars]

	Wheat		Feed grains		Rice		Cotton		Total	
	1983	1984	1983	1984	1983	1984	1983	1984	1983	1984
Payments:										
Deficiency	5	185	81	326	29	57	43	278	158	846
Diversion	–10	305	22	927	0	22	9	28	21	1,282
FOR storage	52	154	5	231	NA	NA	NA	NA	57	385
Net loan and inventory [1]	364	679	–37	–222	10	–91	4	–150	341	216
Total savings	411	1,323	71	1,262	39	–12	56	156	577	2,729

[1] Includes purchases and sales, storage, handling, transportation and processing outlays.

NA. Not applicable.

Minus sign (–) denotes a net increase in costs.

IV. EXPECTED IMPACTS

A. *Impact on Main Purpose and Need.*

1. Wheat: Under the PIK program harvested acreage is projected to decline 8 million to 12 million acres compared to the announced program. Production will likely decrease by about 265 million bushels. Lower production will likely result in declining carryover stocks in 1983/84 for the first time since 1979/80.

With the compensation rate for PIK at 95 percent of the farm program yield, it is estimated that approximately 320 million bushels will be needed to compensate PIK participants FOR—240 million, outstanding regular loans—50 million and CCC inventory—30 million. As a result, the net quantity remaining in the FOR at the end of the 1983/84 crop year is estimated at 765 million bushels, down about 22 percent from a year earlier and more than 40 percent below expected levels under the previously announced program. CCC inventory is expected to also decline marginally during the 1982/83 marketing year. With continued large wheat supplies, prices should not be materially different witor without PIK.

Participation in the combined ARP/LDP/PIK program is estimated at about 70 percent of the total wheat acreage base compared with 48.3 percent under the 1982 acreage reduction program. It is estimated that about 60 percent of the participating farms will utilize the PIK program. (See Appendix Table 1.)

2. Corn and Sorghum: With the PIK program, total 1983 feed grain planted acreage is expected to decline 10 million to 12 million acres as compared with the announced program. The reduction in corn planted acres should be 8 million to 10 million acres, while sorghum plantings are projected to be down 1 million to 2 million acres.

Feed grain production in 1983 will likely decline about 10 percent from the level expected under the announced program. With the lower production, carryover stocks of feed grains in 1983/84 could fall 12 million tons below carrying stocks, and 16 million below projected carryover stocks for the announced program. FOR stocks would be drawn down as reserve grain would primarily be used as PIK. Farm prices of corn under the PIK program may be slightly higher than with the announced program, mainly reflecting the drawdown in total stocks.

Participation in the 1983 corn program is expected to reach 55–65 percent of the corn base acreage, substantially above the 1982 compliance rate of 29 percent. Approximately half of those who comply in 1983 will also participate in the PIK program.

Approximately 65–75 percent of the sorghum base is expected to comply in the 1983 sorghum program. Compliance in the 1982 program was 47 percent. Approximately 40–50 percent of those who comply in 1983 will also participate in the PIK program. (See Appendix Tables 2 and 3.)

3. Rice. Rice producers are estimated to enroll about the same amount of rice base under the PIK program as under the announced program. However, producer participation in the PIK program is forecast to result in further reductions of planted acres, production, and ending stocks.

Total acreage planted to rice under the PIK program is forecast to decline by 0.5 million acres from the 3.2 million forecast under the current program. This additional reduction in acreage is estimated to reduce production by about 21 million hundredweight. As a result, ending stocks of rice are forecast to decline nearly 20 million hundredweight from the level of 70.7 million hundredweight forecast under the current program. CCC inventory of rice is forecast to decline from 54.0 million hundredweight under current program to 20.0 million hundredweight under the PIK program.

Under the PIK program, season average prices are forecast to increase about 14 percent. Prices during the first five months of the year are forecast at about the support level, unchanged from estimates under the announced program. (See Appendix Table 4.)

4. Cotton: Total participation in the 1983 acreage reduction program is expected to improve slightly from earlier estimates with the added incentive of a PIK. It is projected that nearly three-fourths of those participating will opt for some level of PIK. Acreage planted for harvest is expected to drop 2.5–3.0 million acres compared to the announced program. Lower acreage is likely to improve average yields somewhat, due to better quality land remaining in production and more concentrated management of that land. Thus, 1983 production is estimated to decline by approximately 2.5 million bales, assuming average weather conditions.

Due to the continuing large supply of cotton, market prices are not expected to be materially affected during the first several months of the 1983/84 marketing year. Projections for domestic mill use under PIK are the same as for the announced program. However, exports are expected to increase slightly. A decline of approximately 2.7 million bales in 1983/84 ending stocks is anticipated. (See Appendix Table 5.)

5. Farmer-Owned Reserve (FOR). Under the PIK and with FOR changes for the 1983 crop, entries are projected to be 1609 million bushels for wheat compared to 40 million bushels if 1982 FOR provisions were continued. For corn, entries are projected at 75 million bushels compared to 700 million under continued 1982 FOR provisions. Continuing the thrust of the FOR at 1982 program levels would have run counter to the objectives of the PIK to reduce stocks while cutting production, lessening the stocks overhang on the market in future years and enhancing prospects for a market-led recovery in farm prices. The revisions in the FOR for the 1983 crops of wheat, corn, sorghum, barley and oats will continue the integrity of the reserve program but lessen the incentive to utilize the FOR as an alternative marketing source.

B. *Consumer Cost Impacts.*

The consumer impact, as related to the overall consumer price index, will be negligible as the farm prices for the various commodities in the PIK program for the 1983/84 marketing year are expected to be about the same as under the previously announced program.

C. *Other Significant Economic Impacts.*

Little or no change is expected in export volume for wheat, corn sorghum, and rice under the PIK program compared with the previously announced program. Exports of cotton are expected to increase slightly.

The impact of the PIK on input industries will be largely due to changes in a crop acreage, commodity prices, and net returns to farmers. Reduction in input will reduce farm production expenditures and therefore revenues to the farm input sector. Expenditures and therefore revenues to the farm input sector. Expenditures for major farm inputs are expected to decline about $1 billion in 1983 due to the PIK program, around a 3–4 percent decline. The estimated impacts for the various segments of the input industry are:

Seed: Acreage reductions due to the PIK program are expected to decrease farmers' seed use by 15 percent for cotton, 10 percent for corn and rice, and 8 percent for wheat. Seed expenditures for other feedgrains should decline slightly. The PIK program will reduce overall seed use about 4 to 6 percent from levels expected under previously announced programs.

Fertilizer: The PIK program will reduce fertilizer use on corn and rice about 7 percent, wheat about 6 percent, and cotton about 12 percent. These reductions will reduce total fertilizer use by about 4 to 7 percent. Fertilizer use was expected to decline 3 to 5 percent from 1982 levels under previously announced programs.

Pesticides: The decline in pesticide use would range from 15 percent for cotton to no change for feed grains as a result of the PIK program. The affected crops account for about two-thirds of all pesticide use. Total pesticide use, therefore, is expected to be down 5 to 7 percent.

Fuel: The decline in fuel and energy use as a result of the PIK program would range from 13 percent for cotton to no change for feed grains. Crop uses account for about 75 percent of total farm energy use. Overall farm energy use, therefore, is likely to be down 3–4 percent as a result of the PIK program.

Farm Machinery: The PIK program is expected to have little overall effect on farm machinery purchases, which are already depressed. Since machinery purchases depend on available funds and farm income as well as on acreage planted, improvements in the farmers' cash flow and possibly in net income, resulting from the PIK program, could have a postive effect on machinery purchases—about offsetting the negative effects from reduced planted acreage.

Reduced production will also impact on other related industries such as warehouse operators, grain bin manufactures, cotton ginners, cottonseed crushers, textile manufacturers, etc. However, to lessen these possible short-term negative economic impacts, the overall amount of acreage that can be taken out of production in a county cannot exceed 50 percent of the acreage base.

With the PIK program, the longer term economic outlook for the agricultural sector should improve as a result of bringing supplies more in line with demand. The reduction in stocks will provide a potential for price recovery when the general economy improves. Improvement in the financial conditions of the farm sector will subsequently have a postive economic impact on associated agribusinesses.

D. *Other Significant Social Impacts.*

None.

E. *Distribution of Effects.*

Significant impacts of the PIK programs will be distributed among producers and farm imput suppliers. The majority of effects will accrue to producers and suppliers in states accounting for the greates production:

1. Wheat: Idaho, Kansas, MInnesota, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, Texas, and Washington account for 75 percent of production.
2. Corn and Sorghum: Seven states (Iowa, Illinois, Nebraska, Minnesota, Indiana, Ohio, and Wisconsin) produce about 66 percent of all U.S. corn, four States (Texas, Kansas, Nebraska, and Missouri) produce over 85 percent of the sorghum.
3. Rice: Produced primarily in Arkansas, California, Louisiana, Mississippi, Missouri, and Texas.
4. Upland Cotton: Major producing States are Alabama, Arizona, Arkansas, California, Georgia, Louisiana, Mississippi, Missouri, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, and Texas.

F. *Environmental Impact Evaluation.*

The 1983 PIK program determinations will have no impact on the quality of the human environment. Therefore, neither an Environmental Assessment nor an Environmental Impact Statement is needed.

VII. REASON FOR SELECTION OF OPTIONS

The economic outlook for wheat, corn, sorghum, rice and cotton continues to be one of large surpluses, depressed prices, and high government costs. Because of unanticipated further increases in domestic and world supplies and further weakening of foreign demand for U.S. farm products; the acreage reductions provided under previously announced programs, while significant, were deemed inadequate to resolve the surplus problem within a reasonable period of time. Additional action was believed to be necessary to improve the supply and demand price relationships.

The PIK and FOR options were elected because they afforded an opportunity to reduce production, reduce government-held stocks and inventories, and maintain market supplies. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced. Once stocks are reduced significantly through the PIK program, then substantial opportunities for price increases will exist. The PIK program is unique in that it promotes farm income while at the same time reduces costs to the Federal Government and, thus, to U.S. taxpayers.

VIII. REGULATORY REVIEW

In compliance with Secretary's Memorandum No. 1512-1, review of the regulations contained in 7 CFR 713, for need, currency, clarity and effectiveness indicates changes are necessary and will be made accordingly.

IX. PUBLIC COMMENTS

If the PIK program is to be effective in reducing production with respect to 1983 crops in order to assist in bringing supply in line with demand and stabilizing the domestic market, the program must be implemented as soon as possible without opportunity for advance public comment so that producers and others can be made aware of their opportunity to participate in the program. However considerable discussions have been held with farm and other organizations, and with the Congress, on the possible implementation of a PIK program. Views and recommendations provided by those discussions were considered in developing the interim final rule. Public comments on the interim rule are invited and those received on or before February 11, 1983, will be considered and any appropriate changes in the program will be made before the final rule is issued.

Approved:

Everett Rank, Administrator, Agricultural Stabilization and Conservation Service, January 14, 1983.

Stephen B. Dewhurst, Director, Office of Budget and Program Analysis, January 17, 1983.

William G. Lesher, Assistant Secretary for Economics, January 18, 1983.

Alan T. Tracy, Acting Under Secretary, International Affairs and Commodity Programs, January 19, 1983.

APPENDIX TABLE 1.—WHEAT: ACREAGE, YIELD, SUPPLY, UTILIZATION AND PRICE ESTIMATES

	1981–82	Current program		PIK program	
		1982–83	1983–84	1982–83	1983–84
Acreage (million acres):					
Allocation factors	1.000				
NPA/AC. base	84.5	90.7	90.7	90.7	90.7
Acreage base in program		43.7	59.2	43.7	64.3
Set-aside		5.8	8.6	5.8	7.4
Diversion/PIK			3.0		3.2–11.5
Participatioin percent[1]		48.2	65.3	48.2	70.9
Planted	88.9	87.3	82.5	87.3	77.5
Harvested	80.9	78.8	75.5	78.8	65.6
Yield/harvested AC.	34.5	35.6	35.0	35.6	36.3
Program yield	34.6	32.5	33.3	32.5	33.3
Supply (million bushels):					
Beginning stocks	989	1,163	1,509	1,163	1,509
Production	2,793	2,809	2,645	2,809	2,3[illegible]
Imports	3	2	2	2	2
Total supply	3,785	3,974	4,156	3,974	3,891
Utilization (million bushels):					
Feed and residual	137	150	135	150	135
Food	600	610	620	610	620
Seed	112	105	105	105	105
Total domestic use	849	865	860	865	860
Exports	1,773	1,600	1,525	1,600	1,525
Total use	2,622	2,465	2,385	2,465	2,385
Ending stock (million bushels)	1,163	1,509	1,771	1,509	1,506
Farmer-owned reserve	562	975	1,310	975	765
CCC-owned reserve	40	38	63	38	30
Food security reserve	147	147	147	147	147

APPENDIX TABLE 1.—WHEAT: ACREAGE, YIELD, SUPPLY, UTILIZATION AND PRICE ESTIMATES—Continued

	1981-82	Current program		PIK program	
		1982-83	1983-84	1982-83	1983-84
Free stocks	414	349	251	349	564
Prices (per bushel)					
Target level	$3.81	$4.05	$4.30	$4.05	$4.30
Loan/FOR entry prices	3.20-3.50	3.55-4.00	3.65-4.00	3.55-4.00	3.65-3.65
Season average price	3.65	3.45	3.65	3.45	3.60
Deficiency payment rate	.15	.50	.65	.50	.65
Gross income (millions):					
Farm value of production[2]	10,194	9,691	9,654	9,691	9,672
Producer payments[3]	785	729	1,517	729	1,300
Total	10,979	10,420	11,171	10,420	10,972
Production costs (millions):[4]	6,643	6,566	6,498	6,566	6,183
Net producer returns (million):[5]	4,336	3,854	4,673	3,854	4,751

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[1] Acreage base on participating farms as a percent of total acreage base.

[2] Includes estimated PIK value.

[3] Includes deficiency, diversion, disaster and producer storage payments.

[4] Includes variable production per acre. (1981—$65.04; 1982—$63.19; 1983—$64.35). Conservation use acreage variable costs—$25 per acre.

[5] Equals farm value of production plus producer payments less production costs.

APPENDIX TABLE 2.—CORN: SUMMARY OF PROJECTED SUPPLIES AND UTILIZATION

	Announced program		PIK	
	1982-83	1983-84	1982-83	1983-84
Acreage (million acres):				
National allocation factor (percent)				
Allotment/national program acre:				
Set-aside	2.1	4.8	2.1	3.7
Diverted		4.9		4.7+8.6
Set-aside participation (percent)	29	60	29	60
Planted	81.9	79.0	81.9	70.0
	[1] (18.8)	[1] (38)	[1] (18.8)	[1] (29.6)
Harvested	72.8	69.0	72.8	60.0
Yield/harvested acre (bushels per acre)	114.4	111.0	114.4	114.6
Program yield (bushels per acre)	95.5	100.0	95.5	100.0
	[2] (101)		[2] (101)	
Supply (million bushels):				
Beginning stocks	2,366	3,497	2,366	3,497
Production	8,330	7,659	8,330	6,876
Imports	1	1	1	1
Total supply	10,697	11,157	10,697	10,374
Utilization (million bushels)				
Feed	4,200	4,335	4,200	4,315
Food, seed, ind.[2]	900	950	900	950
Total domestic	5,100	5,285	5,100	5,265
Exports	2,100	2,225	2,100	2,225
Total use	7,200	7,510	7,200	7,490
Ending stocks (million bushels):	3,497	3,647	3,497	2,884
Farmer-owned reserve	2,300	2,515	2,300	1,940
CCC inventory	475	535	475	330
Free	722	597	722	614
Prices (dollars per bushel):				
Target price	2.70	2.86	2.70	2.86

APPENDIX TABLE 2.—CORN: SUMMARY OF PROJECTED SUPPLIES AND UTILIZATION—Continued

	Announced program		PIK	
	1982-83	1983-84	1982-83	1983-84
Loan rate	2.55-2.90	2.65	2.55-2.90	2.65
Season average price	2.25	2.60	2.30	2.65
Payment rate	.15	.21	.15	.21
Gross income (million dollars):				
Farm value of production [3]	18,742	19,913	19,159	19,909
Producer payments [4]	904	2,304	904	1,879
Total	19,646	22,217	20.063	21,788
Production costs (million dollars) [5]	12,343	12,194	12,345	11,015
Net producer returns (million dollars) [6]	7,303	10,023	7,718	10,773

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[1] Acreage in the program.

[2] Program yield on participating farms.

[3] Includes estimated PIK value.

[4] Includes deficiency, diversion, disaster, and producer storage.

[5] Includes variable cost of production per acre (1982—$150.08; 1983—$151.28). Conservation use acreage variable cost—$25 per acre.

[6] Equals farm value of production plus payments less production costs.

APPENDIX TABLE 3.—SORGHUM: SUMMARY OF PROJECTED SUPPLIES AND UTILIZATION

	Announced program		PIK	
	1982-83	1983-84	1982-83	1983-84
Acreage (million acres):				
National allocation factor (percent)				
Allotment/national program acre:				
Set-aside	0.7	1.2	0.7	1.0
Diverted		1.2		1.3+2
Set-aside participation (percent)	47	68	47	71
Planted	15.8	14.5	15.8	13.1
	[1] (6.0)	[1] (9.3)	[1] (6.0)	(7.0)
Harvested	13.8	12.4	13.8	11.2
Yield/harvested acre (bushels per acre)	59.8	60.5	59.8	61.2
Program yield (bushels per acre)	54.1	56.8	59.0	56.8
	[2] (59.0)			
Supply (million bushels):				
Beginning stocks	292	447	292	457
Production	826	750	826	685
Imports				
Total supply	1,118	1,197	1,118	1,142
Utilization (million bushels):				
Feed	400	400	390	395
Food, seed, ind.[2]	11	11	11	11
Total domestic	411	411	401	406
Exports	260	260	260	260
Total use	671	671	661	666
Ending stocks (million bushels):				
Farmer-owned reserve	447	526	457	476
CCC inventory	375	450	385	355
Free	50	45	50	45
	22	31	22	76
Prices (dollars per bushel):				
Target price	2.60	2.72	2.60	2.72
Loan rate	2.42-2.75	2.52	2.42-2.75	2.52
Season average price	2.20	2.50	2.25	2.50
Payment rate	.18	.20	.18	.20

APPENDIX TABLE 3.—SORGHUM: SUMMARY OF PROJECTED SUPPLIES AND UTILIZATION—Continued

	Announced program		PIK	
	1982-83	1983-84	1982-83	1983-84
Gross income (million dollars):				
Farm value of production [3]	1,817	1,875	1,859	1,913
Producer payments [4]	168	349	168	295
Total	1,985	2,224	2,027	2,208
Production costs (million dollars) [5]	1,253	1,220	1,253	1,158
Net producer returns (million dollars) [6]	732	1,004	774	1,050

[1] Acreage in the program.
[2] Program yield on participating farms.
[3] Includes estimated PIK value.
[4] Includes deficiency, diversion, disaster, and producer storage.
[5] Includes variable cost of production per acre (1982—$78.19; 1983—$80.01). Conservation use acreage variable cost—$25 per acre.
[6] Equals farm value of production plus payments less production costs.

APPENDIX TABLE 4.—RICE: SUMMARY OF PROJECTED SUPPLY AND UTILIZATION

Item	Current program		PIK program	
	1982-83	1983-84	1982-83	1983-84
Acreage (thousand acres):				
Planted	3,285	3,200	3,285	2,700
Harvested	3,252	3,180	3,252	2,680
Required reduction	422	505	422	400
Land diversion		170		170
Payment-in-kind				600
Participation rate	75	86	75	86
Yield/harvested acre (pounds per acre)	4,472	4,800	4,742	4,925
Program yield (pounds per acre)	4,845	4,673	4,845	4,673
Supply (million hundredweight):				
Beginning stocks	48.9	62.2	48.9	62.9
Production	154.2	152.6	154.2	132.0
Imports	.4	.4	.4	.4
Total supply	203.5	215.2	203.5	195.3
Utilization (million hundredweight):				
Food	44.0	45.9	44.0	45.9
Seed	4.4	4.4	3.7	4.0
Industry	13.9	15.2	13.9	15.2
Total domestic	62.3	65.5	61.6	65.1
Exports	69.0	69.0	69.0	69.0
Residual	10.0	10.0	10.0	10.0
Total utilization	141.3	144.5	140.6	144.1
Ending stocks (million hundredweight):				
Farmer-owned reserve	62.2	70.7	62.9	51.2
CCC inventory	45.0	54.0	21.0	20.0
Free	17.2	16.7	41.9	31.2
Prices (dollar per hundredweight):				
Target price	10.85	11.40	10.85	11.40
Loan rate	8.14	8.14	8.14	8.14
Diversion payment rate		2.70		2.70
Season average price	8.00	8.14	8.00	9.25
5-month average price	8.00	8.14	8.00	8.14
Deficiency payment rate	2.71	3.26	2.71	3.26
Government outlays (million dollars):				
Deficiency payments	251.3	308.5	251.3	251.4
Diversion payments		21.5		21.5
Net loan and acquisitions	227.9	86.7	227.9	200.7

APPENDIX TABLE 4.—RICE: SUMMARY OF PROJECTED SUPPLY AND UTILIZATION—Continued

Item	Current program		PIK program	
	1982-83	1983-84	1982-83	1983-84
Inventory storage	26.8	52.2	19.6	22.0+8.5
Inventory sales	21.8		48.8	32.6
Total	527.8	468.9	547.6	536.7
Economic factors (million dollars):				
Value of production	1,234	1,242	1,234	1,221
Total gross income	1,485	1,572	1,485	1,494
Operating costs	1,268	1,286	1,268	1,085
Net returns	217	286	217	409
Net returns/acre	66	89	66	151
Gross income: [1]				
Farm value of production	1,234	1,242	1,234	1,416
Producer payments	251	330	251	273
Total	1,485	1,572	1,485	1,689
Production costs [2]	926	933	926	802
Net producer returns	559	639	559	887

[1] Includes value of PIK.

[2] Variable and cover crop costs only.

APPENDIX TABLE 5.—UPLAND COTTON: SUMMARY OF PROJECTED SUPPLY AND UTILIZATION

Item	Current program		PIK program	
	1982-83	1983-84	1982-83	1983-84
Acreage (million acres):				
Planted	11.5	12.0	11.5	9.2
Harvested	9.4	11.4	9.4	8.7
Required reduction	1.6	2.3	1.6	1.9
Land diversion		.1		
Payment-in-kind				2.8
Participation rate	78	80	78	86
Yield/harvested acre (pounds per acre)	612	525	612	550
Supply (million bales):				
Beginning stocks	6.6	7.9	6.6	7.9
Production	12.0	12.5	12.0	10.0
Imports				
Total supply	18.6	20.4	18.6	17.9
Utilization (million bales):				
Domestic mill use	5.4	5.6	5.4	5.6
Exports	5.4	6.3	5.4	6.5
Total utilization	10.8	11.9	10.8	12.1
Ending stocks (million bales)	7.9	2.6	7.9	5.9
CCC loans outstanding	2.2	1.3	1.7	.7
CCC inventory	2.7	4.2		
Committed to PIK			3.2	2.4
Free	3.0	3.1	3.0	2.8
Prices (cents per pound): [1]				
Target price	71.00	76.00	71.00	76.00
Loan rate	57.08	55.00	57.08	55.00
Diversion payment rate		25.00		25.00
Government outlays (million dollars):				
Deficiency payments	575	880	575	746
Diversion payments		14		5
Disaster payments	179		179	

APPENDIX TABLE 5.—UPLAND COTTON: SUMMARY OF PROJECTED SUPPLY AND UTILIZATION—Continued

Item	Current program		PIK program	
	1982-83	1983-84	1982-83	1983-84
Gross income (million dollars):				
Farm value of production [2]	3,632	3,738	3,632	3,744
Producer payments	754	894	754	751
Total	4,386	4,632	4,386	4,495
Production costs (million dollars) [3]	3,167	3,340	3,167	2,633
Net producer returns (million dollars)	1,219	1,292	1,219	1,862

[1] USDA is prohibited from publishing cotton price projections.
[2] Includes estimated values for cottonseed and PIK.
[3] Variable and cover crop costs only.

FACT SHEET—PAYMENT-IN-KIND (PIK)

BACKGROUND

In the past two years, U.S. and world grain production has reached record levels. Weather also contributed to a sharp jump in world production of oilseeds in 1982, and large cotton crops in foreign countries. At the same time, the sources of strength in the demand for U.S. agricultural products have been eroded by a variety of factors: weak economic conditions in the U.S. and throughout the rest of the world, financial instability in a number of countries, the strong U.S. dollar, losses related to the Soviet embargo, continued East-West tensions, unfair trade practices by some of our export competitors, and restrictive market actions by some foreign buyers.

Rising world production in the face of weakened demand has led to a sharp accumulation in world stocks. By the end of 1982/83, world grain stocks will likely reach a record 260 million tons, nearly double the level of two year ago. This would be equal to two months' supply of grain, the highest global stocks-to-use ratio in more than a decade—and nearly 60 percent of the stocks are in the U.S.

U.S. stocks of nearly all major commodities have increased dramatically. By the end of the current 1982/83 crop year, compared with two years earlier, our ending stocks of rice and feed grains will have tripled. The farmer-owned reserve for corn will have increased twelve-fold approaching 2.5 billion bushels. The wheat reserve will have more than doubled and reached nearly 1 billion bushels. Cotton stocks will be nearly three times larger than two years before.

PIK PROGRAM AND IMPACTS

The PIK program is a land diversion program designed to bring supplies more in line with demand. The Government offers farmers an amount of commodity for reducing acreage by a larger amount than called for under previously announced programs.

Total harvested acreage for the five crops is expected to be reduced by 23 million acres relative to previously announced program. Total wheat, corn and sorghum production will be reduced by over 1 billion bushels (10 percent) with cotton production reduced by 2.5 million bales (20 percent) and rice production by 21 million cwt. (15 percent).

Total ending stocks of wheat, corn and sorghum for 1983/84 are expected to be reduced by over 1 billion bushels from levels expected under the previously announced 1983/84 programs and around 600 million bushels below 1982/83 levels. Upland cotton stocks will be reduced by 2.7 million bales relative to earlier expectations for 1983/84 with rice stocks dropping by about 20 million cwt. The PIK program is self-terminating when excessive stocks are reduced.

Although production will be reduced, total supplies of grains and cotton will be ample to meet both foreign and domestic needs and ensure our role as a reliable supplier.

Sound conservation practices would be applied to 23 million acres more land than under previously announced 1983 programs.

Farmers can expect to receive the same or greater net returns while the stock adjustments are occurring. Commodity prices may not increase significantly in the near term, though they should firm as storage payments permit greater marketing flexibility and buyers realize that stocks are being reduced. Once stocks are reduced significantly through the PIK program, then substantial opportunities for price increases will exist.

The impact of the PIK program on input industries will be largely due to net returns to farmers and changes in crop acreages. Reduced acreages will likely reduce total input use slightly in 1983 but improved returns in 1983-84 will tend to increase input use. Expenditures for major farm inputs may decline only about 3-4 percent relative to estimates before the PIK program.

Commodity Credit Corporation (CCC) outlays, which totaled around $12 billion in FY 1982, are expected to be reduced by over $3 billion during FY 1983-84 relative to previously announced programs.

IMPACT OF PAYMENT-IN-KIND PROGRAM

		1983-84		
	1982-83	Current program	Current program and PIK	Impact of PIK program
Wheat:				
Acreage harvested (million acres)	78.8	75.5	65.6	−9.9
Production (million bushels)	2,809	2,645	2,380	−265
Ending stocks (million bushels)	1,509	1,771	1,506	−265
FOR [1] (million bushels)	975	1,310	765	−545
Corn:				
Acreage harvested (million acres)	72.8	69.0	60.0	−9.0
Production (million bushels)	8,330	7,659	6,876	−783
Ending stocks (million bushels)	3,497	3,647	2,884	−763
FOR [1] (million bushels)	2,300	2,515	1,940	−575
Grain sorghum:				
Acreage harvested (million acres)	13.8	12.4	11.2	−1.2
Production (million bushels)	826	750	685	−65
Ending stocks (million bushels)	447	526	476	−50
FOR [1] (million bushels)	375	450	355	−95
Upland cotton:				
Acreage harvested (million acres)	9.4	11.4	8.7	−2.7
Production (million bales)	12.0	12.5	10.0	−2.5
Ending stocks (million bales)	7.9	8.6	5.9	−2.7
Rice:				
Acreage harvested (million acres)	3.252	3.180	2.680	−.5
Production (million hundredweight)	154.2	152.6	132.0	−20.6
Ending stocks (million hundredweight)	62.2	70.7	51.2	−19.5

[1] Farmer-owned reserve.

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